



October 16, 2003

Honorable Cruz M. Bustamante, Co-Chair
Commission on Building for the 21st Century
Office of the Governor
State Capitol, First Floor
Sacramento, CA 95814

Honorable Maria Contreras-Sweet, Co-Chair
Commission on Building for the 21st Century
Office of the Governor
State Capitol, First Floor
Sacramento, CA 95814

Dear Lieutenant Governor Bustamante and Ms. Contreras-Sweet:

Final Report—Review of Bond Funds

In accordance with the Governor's November 9, 1999 directive, we respectfully submit to the Commission on Building for the 21st Century, the final report on our review of the 2000 Parks Bond (Proposition 12) and Water Bond (Proposition 13) funds, as of June 30, 2002. The report includes a status of open bond projects, a review of project expenditures, findings and recommendations, department responses, and a consolidated response from the Resources Agency. We plan to post this report on the Department of Finance's website.

The Governor's directive also required the Department of Finance to audit the Library Bond Act of 2000 (Proposition 14) and Veterans Bond Act of 2000 (Proposition 16) funds. These programs are still in the planning and development phase and have not expended any significant bond funds during fiscal years 2000-01 and 2001-02. Accordingly, audit work has not been performed on these funds and their information has been excluded from the current report. We plan to include these programs in future audits.

We appreciate the cooperation and assistance of all of the participating departments and agencies with our review. If you have any questions, please contact me or Richard R. Sierra, Manager, at (916) 322-2985.

Sincerely,

Samuel E. Hull, Chief
Office of State Audits and Evaluations

Enclosure

cc: Honorable Mary D. Nichols, Secretary, Resources Agency
Honorable Winston H. Hickox, Secretary, California Environmental Protection Agency
Honorable Grantland Johnson, Secretary, California Health and Human Services Agency
Mr. Don Wallace, Assistant Secretary, Resources Agency
Ms. Elaine Berghausen, Deputy Assistant Secretary, Resources Agency
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AR_{VIEW} OF B_{OND} F_{UNDS}

Propositions 12 and 13 Status of Bond Projects and Expenditures As of June 30, 2002

Prepared By:
Office of State Audits and Evaluations
Department of Finance

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PREFACE

The Department of Finance, Office of State Audits and Evaluations, performed this review at the Governor's direction. The review's purpose was to determine the project status of the 2000 Parks Bond (Proposition 12) and Water Bond (Proposition 13) funds, and to audit the expenditures of those funds, for the period July 1, 2001 to June 30, 2002. Specifically, our objectives were to:

- Obtain from departments administering Proposition 12 and 13 bond funds, information on the status of their bond projects, including projects approved, expenditures incurred, and remaining appropriation balances.
- Review the applicable internal control of departments administering bond funds to determine areas of risk and to identify where the control and accountability for bond funds could be improved.
- Audit a sample of bond program expenditures/disbursements for the period July 1, 2001 to June 30, 2002, for accuracy and fiscal compliance with statutory or contractual requirements. Expenditures include State operations, capital outlay, and local assistance.

This report includes audit results for fiscal year 2001-02, and also summarizes cumulative information since program inception.

We did not conduct a performance review to assess the effectiveness and efficiency of the bond programs' operations or program compliance. The scope of our review was limited to fiscal compliance.

This report is a public record and is available on the Department of Finance's website at http://www.dof.ca.gov/FISA/OSAE/OSAE_Audit_Reports.HTM.

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EXECUTIVE SUMMARY

During our review of the 2000 Parks Bond (Proposition 12) and Water Bond (Proposition 13) funds for the period July 1, 2001 to June 30, 2002, we determined that, except as noted, bond funds and bond-acquired assets were accurately accounted and reported in compliance with the bond acts, and in conformity with the accounting practices as prescribed by the State of California. The following is a summary of our findings:

Proposition 12

As of June 30, 2002:

- Cumulative expenditures, encumbrances, and other commitments totaled \$1,007,535,211.
- \$139,706,876 of the original allocation remained unappropriated.
- \$779,972,913 of the total appropriation remained unexpended, unencumbered, and uncommitted.
- There were 1,995 projects, of which 540 are complete.

Proposition 13

As of June 30, 2002:

- Cumulative expenditures, encumbrances, and other commitments totaled \$886,945,130.
- \$685,865,867 of the original allocation remained unappropriated.
- \$397,189,003 of the total appropriation remained unexpended, unencumbered, and uncommitted.
- There were 524 projects, of which 173 are complete.

Internal Control Issues

As discussed in the *Findings and Recommendations* section of this report, we identified areas where the control and accountability for bond funds could be strengthened, and have provided recommendations to improve fiscal operations. The control issues pertain to the statewide coordination of bond funds and activities, accounting and reporting, contracting, and project monitoring.

Background

In March 2000, California voters passed a \$2.1 billion parks bond (Proposition 12) and a \$1.97 billion water bond (Proposition 13), implementing legislation authorizing the sale of bonds to finance a variety of resource programs. Administered by a number of State departments, agencies, boards, and conservancies (collectively referred to as *departments*), these bonds support a broad range of programs that protect, preserve, and improve California's water and air quality, public parks and wild lands, wildlife habitats, and waterway-adjacent lands. Bond proceeds are expended directly by the administering State departments on various capital outlay projects, and are also disbursed to federal, State, local, and non-profit entities in the form of grants, contracts, and loans.

Both bond programs provide for the issuance and sale of general obligation bonds of the State of California, and the establishment of special funds and accounts for depositing the funds and carrying out the purposes specified in the bond acts. Operating cash is provided by short-term loans from the State's Pooled Money Investment Account (PMIA). Loans are repaid upon sale of the bonds.

Program funds were appropriated beginning with fiscal year 2000-01. All projects are expected to be completed by 2010-11.

The details for each bond program are discussed below.

Proposition 12

Responding to the recreational and open-space needs of a growing population and expanding urban communities, the Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (Proposition 12) renews State stewardship of natural resources by investing, through the issuance and sale of \$2.1 billion in general obligation bonds, in neighborhood and State parks, clean water protection, coastal beaches, and scenic areas. Implemented by Chapter 461, Statutes of 1999 (Assembly Bill 18, Villaraigosa and Keeley), as amended by Chapter 638, Statutes of 1999 (Senate Bill 1147, Leslie), the act finances a comprehensive program for the acquisition, development, improvement, rehabilitation, restoration, enhancement, and protection of park, recreational, cultural, historical, fish and wildlife, lake riparian, reservoir, and coastal resources. *[Source: Assembly Bill 18]*

To manage program implementation, Proposition 12 funding was allocated to 13 State departments for support, local assistance, and capital outlay. The capital outlay projects consist primarily of land acquisition and restoration for the State park system, coastal areas, and protection of fish and wildlife. A portion of the Proposition 12 funding is also allocated to local agencies and non-profit organizations for urban parks, recreational facilities, cultural centers,

restoration projects, and land acquisitions. The Proposition 12 funds allocated to each department and bond act section are summarized on Schedules 1 and 2, respectively.

The act also created the Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Fund (0005) for purposes of depositing the proceeds from the sale of bonds, and for funding the purposes specified in the act. Annual appropriations are made from this fund.

The Resources Agency was assigned the overall lead responsibility for the Proposition 12 program, and the Department of Parks and Recreation was assigned the responsibility to track participating departments' cash needs, loans, and allocation balances. Departments are responsible for managing their individual projects and for maintaining project accounting records.

Proposition 13

The Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act (Proposition 13), provides funding to enhance water supply reliability, improve water quality and safety, improve flood protection, and increase the beneficial use of existing water supplies in California. The act also provides loan and grant funding for urban and agricultural water conservation, infrastructure rehabilitation, and groundwater recharge and storage projects or feasibility studies. To finance the act's programs, the State is authorized to sell \$1.97 billion in general obligation bonds. *[Source: Assembly Bill 1584]*

Implemented by Chapter 725, Statutes of 1999 (Assembly Bill 1584, Machado and Costa), and administered by 11 State departments, the act's funding comprises support, local assistance, and capital outlay. More than half of the funding is designated for grants and loans to local agencies and non-profit organizations.

The act also created the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bond Fund (6001) for purposes of depositing the proceeds from the sale of bonds, and for funding the purposes specified in the act. This main fund serves as a clearing account for 29 related sub-funds and sub-accounts, each of which receive specific appropriations.

Although a lead agency has not been assigned to oversee and coordinate Proposition 13 activities, individual participating departments are responsible for managing their cash needs and for maintaining records in support of project activities and expenditures.

The Proposition 13 funds allocated to each department and bond act section are summarized on Schedules 3 and 4, respectively.

SCOPE AND METHODOLOGY

On November 9, 1999, the Governor directed each department allocated Proposition 12 and 13 funds (as shown on Schedules 1 through 4), “to annually report to the Department of Finance: a list of projects approved, the progress of the project or actual expenditures made, and the amount of funds remaining in each account.” The Governor also directed the Department of Finance to annually audit and report on the expenditure of these funds. In response to this directive, the Department of Finance, Office of State Audits and Evaluations, has completed its audit of Proposition 12 and 13 expenditures, as of June 30, 2002, and presents its second annual report to the Commission on Building for the 21st Century.

Our scope included an audit of the Proposition 12 and 13 bond controls and transactions for the period July 1, 2001 to June 30, 2002, and a compilation of department-reported project information for the period July 1, 2000 to December 31, 2002, with the objective of determining whether the bond expenditures and encumbrances were accurately reported, and whether the project status was reported in accordance with the Governor’s directive. The methods used and procedures performed by scope area are as follows:

- **We determined whether administering departments had effective control and accountability for bond funds, and whether they had adequate project monitoring processes.** For this area, we interviewed administering departments’ fiscal and program staff, observed operations and activities, reviewed policies and procedures, reviewed contract terms and project scopes, reviewed project files for evidence of periodic monitoring and submission of required deliverables, and tested a sample of bond expenditures for proper authorization and compliance with established procedures and contract terms. Where appropriate, we reviewed and relied on the work of other auditors. We found that, except as noted, bond funds and bond-acquired assets were safeguarded against loss from unauthorized use or disposition, bond transactions were executed in accordance with management’s authorization and recorded properly to permit the preparation of reliable financial reports, and fiscal/monitoring activities followed sound business practices, and were conducted in accordance with the bond acts and with policies and procedures established in the State Administrative Manual. Identified control weaknesses are described in the *Findings and Recommendations* section of this report.
- **We determined whether bond funds were expended and reported in accordance with the bond acts and State accounting requirements.** To complete this objective, we reviewed the bond acts and applicable laws and regulations, reviewed policies and procedures, interviewed administering departments’ management and staff, reviewed and verified bond allocations and appropriations, verified fund transfers, reconciled accounting records with financial reports, tested a sample of expenditures (support, local assistance, and capital outlay) to supporting documents, reviewed grant agreements and

contracts, and verified the validity of encumbrances and reserves. We inspected acquired land (on a limited basis) and reviewed appraisals, escrow/closing statements, deeds of trust, and the recording of State-owned land in departmental funds/accounts and statewide real property inventories. Where appropriate, we reviewed and relied on the work of other auditors. We found that the bond expenditures for the period July 1, 2001 to June 30, 2002, were accurately accounted and reported in compliance with the bond acts, and in conformity with the accounting practices as prescribed by the State of California. The results of our audit are summarized on Schedules 1 through 4.

During the period May 1, 2002 to June 30, 2003, we audited 132 Proposition 12 and 13 grant contracts awarded to federal and local agencies, joint powers authorities, and nonprofit organizations. The objective of these audits was to determine the grantees' fiscal compliance with the contracts. We issued separate reports to grantees and funding departments concerning the audit work performed. In this connection, we found only a few compliance or control exceptions. Exceptions having statewide applicability are included in the *Findings and Recommendations* section of this report.

- **We determined whether administering departments' self-reported project status appeared complete, consistent, and informative.** In accordance with the Governor's directive, we requested all administering departments to report to us the status of their projects (by bond act item). Specific projects are designated as completed when activities, as funded by the bond propositions, have been fulfilled. For example, land acquisition projects are deemed completed when escrow closes and title is transferred; and construction projects are considered completed when the project is available for its designated use, and the department/grantee has complied with the required administrative actions (i.e. certificate of completion, final progress report, final inspection, etc.). To obtain project completion dates, we distributed surveys, interviewed department staff, reviewed project files, reviewed expenditure details, conducted grant audits, and reconciled department-reported information with financial reports and other external documentation. The results are summarized in the *Project Overview and Status* section of this report.

The information was reported to us through December 31, 2002. Because this information is estimated and self-reported, our auditing procedures did not extend to a verification of the expected completion dates, and we make no representations about their accuracy. However, we did review the information for consistency and completeness and followed up with departments to clarify and specify details. We will continue reviewing project completion during subsequent field audits of grantees.

Our review did not include an assessment of the bond authorization, issuance, and sale processes, or an examination of the efficiency or effectiveness of program operations. Further, we did not assess the reasonableness of the land acquisition costs, or the conservation value of the land acquired or projects completed.

PROJECT OVERVIEW AND STATUS

Since July 1, 2000, most of the administering departments have developed processes to review applications, identify and prioritize projects and grantees, and administer the bond programs. In addition to directly-managed projects, administering departments have executed contracts for land acquisitions, construction projects, and studies, with various completion dates. The departments provided to us the following project status information, as of December 31, 2002. We performed limited tests of the information provided.

Due to the large volume of individual projects, no attempt has been made to summarize all projects at the grant level. Instead, we have aggregated the projects into major categories as shown in the bond acts, and summarize their status on a consolidated basis. However, for certain major projects we provide more detailed information. In the bond acts, Proposition 12 funds were allocated by *department*, while Proposition 13 funds were allocated by *specific program* (with one or more participating departments). Consequently, there may be differences in the following presentation between the two propositions. For Proposition 13, we have also shown the project status by department where available. Completed projects represent projects where activities, as funded by the bond propositions, have been fulfilled. The reported project costs are the maximum amount of bond funds allowed by the contract, grant, or encumbrance.

The following is a summary of the major programs as authorized in the bond acts, their allocations, and project status. The number of projects, average project costs, and allocations/appropriations are for the period July 1, 2000 to June 30, 2002. The estimated completion dates were reported as of December 31, 2002.

Proposition 12

(The Planning & Conservation League, PCL Foundation, and departmental websites provided some of the following program information.)

Department of Parks and Recreation: The Department of Parks and Recreation (DPR) administers the largest and most complex state park system in the world, including hundreds of units, from mountain and desert wilderness to historic structures and urban districts. The DPR serves several roles under Proposition 12. It operates the State Parks and Recreational System, which receives funding to acquire new parks, restore existing park resources and volunteer facilities, and improve visitor facilities. Additionally, per capita and competitive grants/contracts are made to local agencies. Some of the grants are for urban recreation programs, historic preservation, zoos, museums, aquariums, and youth facilities. The DPR has been allocated \$1.364 billion for these purposes.

A total of \$1.169 billion was appropriated. The DPR approved and funded 1,265 projects, averaging \$562,000. The total number of projects will increase and the average project cost will decrease as additional projects are identified for the Per Capita and Roberti-Z'Berg Harris grants. Major projects include the Los Angeles Cornfields (\$35 million), Topanga Canyon

(\$48 million), Baldwin Hills (\$4 million), and the Mill Creek (\$10 million) acquisitions. The Mill Creek acquisition also included Proposition 12 and 13 funding from the State Coastal Conservancy (\$5 million) and Wildlife Conservation Board (\$12.5 million). Two hundred three projects have been completed. For the remaining projects, estimated completion dates range from fiscal years 2002-03 through 2008-09.

California Conservation Corps: The California Conservation Corps (CCC) provides assistance to local agencies on a wide variety of conservation projects, including stream and wetlands restoration projects, and other resource projects. The CCC has been allocated \$15 million.

A total of \$6.5 million was appropriated. Project funds are disbursed to the CCC's 11 Service Districts for support projects, and as grants to local conservation corps. The CCC awarded 33 local assistance contracts, averaging \$153,000 and 54 support projects, averaging \$17,000. Thirteen local assistance projects and 53 support projects have been completed. The remaining projects are estimated to be completed during 2002-03.

Wildlife Conservation Board: The Wildlife Conservation Board (WCB) acquires wildlife habitats, primarily for later management by the Department of Fish and Game. Much of the Proposition 12 funds will go to the preservation of habitat for endangered plants and animals. Additionally, the WCB will use the funds for the acquisition of wetlands, waterfowl habitat, ancient redwoods and oak woodlands, preservation of the Salton Sea, and other wildlife projects. The WCB has been allocated \$265.5 million.

A total of \$254.9 million was appropriated. Project funds are disbursed in the form of grants to local agencies, or directly to vendors/contractors. The WCB awarded 76 contracts, averaging \$568,000 per contract. The Big Sur Land Trust received \$5 million for the Palo Corona Ranch acquisition, and the Land Trust for Santa Barbara County received \$1.5 million for the Arroyo Hondo Preserve acquisition. Sixty contracts have been completed. The remaining contracts are estimated to be completed by June 2005.

California Tahoe Conservancy: The California Tahoe Conservancy (CTC) was established to develop and implement programs, through acquisitions and site improvements, to improve Lake Tahoe's water quality, preserve the region's scenic beauty and recreational opportunities, provide public access, preserve wildlife habitats, and manage and restore lands to protect the natural environment. The CTC has been allocated \$50 million to continue this work.

A total of \$13.1 million was appropriated. Project funds are for the acquisition of land and erosion control. The CTC awarded 4 contracts: \$837,000 for the Glorene and Eighth Street Erosion Control Project, \$575,000 for the acquisition of the Twin Peaks/Nemetz Property, \$4,177,000 for the Truckee Marsh Meadow Edge acquisition, and \$235,000 for the Meadow Vale Stream Environment Zone acquisition. Three of the contracts have been completed. The Glorene and Eighth Street Erosion Control Project is expected to be completed by October 2004.

California State Coastal Conservancy: The California State Coastal Conservancy (SCC) was created to purchase, protect, restore, and enhance coastal resources and access. Proposition 12 finances a wide variety of coastal programs and projects, including projects to protect San Francisco Bay, Santa Monica Bay, Newport Bay, Ballona Wetlands, and the Laguna Coast. Additional programs include coastal protection, salmon protection and

restoration, creation of trails along the coast and Guadalupe River, and extension of the San Francisco Bay Ridge Trail. The SCC has been allocated \$250.4 million.

A total of \$226.2 million was appropriated. Project funds are disbursed in the form of grants to local or non-profit agencies, or directly to vendors/contractors. The SCC awarded 266 contracts, averaging \$294,000 per contract. Contracts included a \$5.5 million award to the Mendocino Land Trust for the Big River acquisition, a \$7.4 million award to the Association of Bay Area Governments for the Bay Trails Block Grant, and a \$590,000 award to Save Mount Diablo for the Wright Ranch acquisition. One hundred thirty-five contracts have been completed. The remaining contracts have estimated completion dates from January 2003 to December 2006.

Santa Monica Mountains Conservancy: The Santa Monica Mountains Conservancy (SMMC) was established to preserve land in the Santa Monica Mountains region of western Los Angeles and eastern Ventura counties. The SMMC works closely with the National Park Service and DPR in protecting wildlife habitat and recreation areas. Additionally, the SMMC has established partnerships with a variety of local agencies to protect unique resources in Los Angeles County, such as the Los Angeles River, Whittier Hills, and parklands in Ventura County. Proposition 12 provides \$35 million to continue these programs.

A total of \$33.3 million was appropriated. Project funds are advanced to the Mountains Recreation Conservation Authority (MRCA). SMMC awarded 55 contracts to MRCA, averaging \$605,000 per contract. Contracts included \$9.6 million for the Avatar (Mullholand Gateway Park) acquisition. The Avatar acquisition also includes \$5.9 million in Proposition 13 funds from the Resources Agency. Forty-three projects have been completed. The remaining contracts are estimated to be completed by October 2004.

Coachella Valley Mountains Conservancy: The mountains surrounding the Coachella Valley are unique biological, historical, cultural, and recreational resources. They are heavily used by visitors from around the world, and are of great importance to the area's Native Americans. The Coachella Valley Mountains Conservancy (CVMC) was established to acquire the most important lands threatened by development. Proposition 12 provides \$5 million to continue this program.

A total of \$4.9 million was appropriated. Project funds are disbursed either for direct acquisitions by the CVMC or as local assistance grants to local agencies or nonprofit organizations. The CVMC awarded 13 contracts, averaging \$184,000 per contract. All 13 contracts were completed in 2001-02.

San Joaquin River Conservancy: Undeveloped land surrounding the San Joaquin River, between Friant Dam and Highway 99 in Fresno and Madera counties, is a unique resource to the fast growing San Joaquin Valley, which suffers from a dearth of protected natural lands. The San Joaquin River Conservancy (SJRC) has been allocated \$15 million to promote land acquisition, habitat preservation and enhancement, and public access and recreation programs.

A total of \$14.6 million was appropriated. Public access and recreation project funds are disbursed in the form of grants to local government and nonprofit agencies, or directly to contractors. The SJRC awarded four contracts for \$75,000, \$250,000, \$3.2 million, and \$3.6 million. Three projects have been completed, and the final project is estimated to be completed by February 2003.

Department of Conservation: The Department of Conservation (DOC) manages a number of resource programs, including an agricultural conservation easement program to prevent the non-agricultural development of farmland. Conservation easements are acquired from willing sellers, who can continue to farm without restriction of agricultural activity. Upon sale of the easement, non-agricultural development is prevented. The DOC was allocated \$25 million for easement grants.

A total of \$11 million was appropriated. Project funds are disbursed in the form of grants for the California Farmland Conservancy Program. The DOC awarded five contracts, averaging \$62,000 per contract. The estimated completion dates for all five contracts range from December 2002 through June 2003.

Department of Forestry and Fire Protection: The Department of Forestry and Fire Protection's (CDF) Urban Forestry Program provides grants to local communities to plant and maintain trees in urban areas. This program improves air quality, makes neighborhoods more attractive, improves property values, and provides habitat for wildlife. To continue these efforts, the CDF was allocated \$10 million.

A total of \$4.2 million was appropriated. Project funds are disbursed in the form of grants/contracts. The CDF awarded 66 contracts, averaging \$37,000 per contract. Thirty-six of these projects are estimated to be completed by March 2003, and the remainder by March 2004.

Department of Fish and Game: Under Proposition 12, the Department of Fish and Game (DFG) was assigned the responsibility of implementing waterfowl habitat improvement projects, and removing non-native vegetation. The DFG will also administer lands acquired with these moneys. Proposition 12 provides \$12 million for these purposes.

A total of \$2.9 million was appropriated. Project funds are for the development, restoration, and preservation of habitats and wetlands. The DFG awarded 32 contracts, averaging \$54,000 per contract. Twenty of the contracts are ten-year projects, with estimated completion dates from October 2010 to February 2011. Seven contracts are complete and the remaining contracts contain shorter terms, lasting from two months to two years.

Resources Agency: The California Resources Agency (RA) is an integral part of the Governor's cabinet. The RA oversees a wide variety of departments, boards, and commissions, including all of those listed above, and is also the lead agency for the State's Proposition 12 programs. Although the individual departments manage most programs, the RA directly manages a few. These programs include the preservation and restoration of the Los Angeles, San Gabriel, and Kern Rivers; a project in the Santa Clarita area; and a program for the preservation of lands in the Sierra-Nevada Cascade Mountain Region. Proposition 12 provides \$45.9 million for these purposes.

A total of \$41.7 was appropriated. Project funds are disbursed in the form of grants to local agencies. The RA awarded nine contracts, averaging \$837,000 per contract. Six contracts have been completed. The remaining contracts have estimated completion dates from February to October 2003.

California Integrated Waste Management Board: The California Integrated Waste Management Board's (CIWMB) Proposition 12 program includes grants to local agencies to assist them in meeting State and federal accessibility standards at public playgrounds. The

local agency guarantees that 50 percent of the grant will be used for the improvement or replacement of playground equipment or facilities through the use of recycled materials. Proposition 12 provides \$7 million for this program.

A total of \$5.6 million was appropriated. The CIWMB awarded 113 contracts, averaging \$45,000 per contract. The estimated completion dates range from February 2003 through February 2004.

Proposition 13

(The Department of Water Resources and departmental websites provided some of the following program information.)

Safe Drinking Water Program—Department of Health Services

The act provides \$70 million to the Safe Drinking Water State Revolving Fund (Fund 0629), for safe drinking water grants and low-interest loans (\$68 million), and technical assistance to disadvantaged communities (\$2 million). The Department of Health Services (DHS) administers this program.

A total of \$70 million was appropriated. The DHS awarded seven contracts/loans, averaging \$5.5 million per contract/loan. The Contra Costa Water District received \$15.1 million to refinance its existing loan. Estimated completion dates of the contracts/loans range from April 2021 through June 2022.

Floodplain Mapping Program—Department of Water Resources and Department of Conservation

The act provides \$2.5 million to the Floodplain Mapping Subaccount (6003), for floodplain mapping, land use planning, and mitigation of flood risks and damages. The Department of Water Resources (DWR) administers this program.

A total of \$2.4 million was appropriated. The DWR awarded three contracts, which included \$1.2 million to the URS Group, \$180,000 for the Natural Resources Conservation program, and \$750,000 for the California Awareness Floodplain Mapping program. The estimated completion dates are June 2004, March 2004, and March 2005, respectively.

The act also provides \$2.5 million to the Agriculture and Open Space Mapping Subaccount (6004), for farmland mapping, open space programs, and protection of agricultural resources. The Department of Conservation (DOC) administers this program.

A total of \$1 million was appropriated. Of this amount, \$750,000 was provided to the USDA Natural Resources Conservation Service under a memorandum of understanding to complete soil mapping in Butte County and publish soil surveys. The estimated completion date is June 2005. The remainder is being used by the DOC to add new soils information to the Farmland Mapping Program and initiate mapping of long-term agricultural easements.

Flood Protection Corridor Program—Department of Water Resources

The act provides \$70 million to the Flood Protection Corridor Subaccount (6005), for grants to local agencies and nonprofit organizations to establish and manage flood protection corridors, acquire easements, preserve agricultural land, and protect wildlife habitats.

A total of \$38.8 million was appropriated. The DWR awarded four contracts for \$1.9 million, \$4.8 million, \$5 million and \$17.6 million. The Nature Conservancy received \$17.6 million for the Staton Island acquisition. Two of the contracts have been completed. The remaining contracts will be completed by March 2003 and May 2007.

Delta Levee Rehabilitation Program—Department of Water Resources

The act provides \$30 million to the Delta Levee Rehabilitation Subaccount (0409), for local assistance subventions and special flood protection projects on specified Delta islands.

A total of \$30 million was appropriated. The DWR awarded 128 contracts, averaging \$234,000 per contract, some of which are multi-year projects. Eighty-eight of the contracts have been completed. The remaining contracts have estimated completion dates of 2002-03 to 2004-05.

Flood Control Subventions Program—Department of Water Resources

The act provides \$45 million to the Flood Control Subventions Subaccount (6006), to pay the State's share of nonfederal subvention costs on authorized county flood control projects.

A total of \$42.8 million was appropriated. The DWR awarded 11 contracts, averaging \$3.9 million per contract. Four of the contracts have been completed and the remaining contracts will be completed by 2008-09.

Urban Stream Restoration Program—Department of Water Resources

The act provides \$25 million to the Urban Stream Restoration Subaccount (6007), for grants to local agencies and community conservation corps for stream clearance, flood mitigation, clean-up, and other activities to restore the natural value of streams and prevent flood damage.

A total of \$13 million was appropriated. The DWR awarded 37 contracts, averaging \$324,000 per contract. One of the contracts has been completed. The remaining contracts have estimated completion dates of 2002-03 to 2003-04.

Capital Area Flood Protection Program—Department of Water Resources

The act provides \$20 million to the State Capital Protection Subaccount (6008), for use by the Sacramento Area Flood Control Agency, to pay the State's share of costs for flood management projects authorized by the federal government.

A total of \$20 million was appropriated. The DWR awarded one contract of \$9.9 million for the American River Flood Control Project, Phase I, in Sacramento. The project started in July 1998 with an estimated completion date of June 2003.

San Lorenzo River Flood Control Program—Department of Water Resources

The act provides \$2 million to the San Lorenzo River Flood Control Subaccount (6009), for use by the City of Santa Cruz to pay the State's share of the San Lorenzo River flood management project.

A total of \$1.9 million was appropriated. The DWR awarded one contract for the full amount of \$1.9 million for the San Lorenzo River project in Santa Cruz. The project started during 2000 with an estimated completion date in 2003.

Yuba Feather Flood Protection Program—Department of Water Resources, State Reclamation Board, and Department of Fish and Game

The act provides \$90 million to the Yuba Feather Flood Protection Subaccount (6010), to be used as follows:

- \$70 million will be used by the DWR or the State Reclamation Board to implement flood management projects.

A total of \$13.6 million was appropriated. The DWR awarded nine contracts averaging \$662,000 per contract. Five projects are complete with the remainder to be completed by mid 2003.

- \$20 million was allocated to the Department of Fish and Game (DFG), which may be used to determine if any flood control project undertaken pursuant to this article would result in a reduction of, or damage to, fish, wildlife, or riparian habitat; and to protect, improve, restore, create, or enhance fish, wildlife, and riparian habitat of a comparable type to that which was reduced or damaged.

As of June 30, 2002, no funds were appropriated.

Arroyo Pasajero Program—Department of Water Resources

The act provides \$5 million to the Arroyo Pasajero Subaccount (6011), to finance projects that improve flood protection for State Highway 269 north of Huron, or to improve flood control for the California Aqueduct around the Arroyo Pasajero crossing.

A total of \$677,000 was appropriated. As of June 30, 2002, no contracts were awarded. It is anticipated that DWR will utilize the funds in 2004-05.

Watershed Program—State Water Resources Control Board

The act provides \$90 million to the Watershed Protection Subaccount (6013), for grants to local agencies and nonprofit organizations to implement watershed plans, reduce flooding, control erosion, improve water quality, improve aquatic and terrestrial habitats, restore groundwater recharge, protect native vegetation and water flows, and to provide matching funds for federal grant programs.

A total of \$40.6 million was appropriated. The State Water Resources Control Board (SWRCB) awarded 13 contracts, averaging \$936,000 per contract. The Lake County Sanitation District received \$2 million for construction of the Northwest Regional Wastewater Treatment Plant, and

the Redding Redevelopment Agency received \$5 million for the acquisition and renovation of Clover Creek. The estimated completion dates range from 2002-03 to 2004-05.

Water and Watershed Education Program—Department of Water Resources

The act provides \$8 million to the Water and Watershed Education Subaccount (6014), to be used as follows:

- California State University (CSU), Fresno will use \$3 million to establish the San Joaquin Valley Water Institute.

During 2000-01, funds were appropriated to the DWR and disbursed via a \$2.9 million contract with CSU Fresno. The expected completion date is June 2003.

- The DWR will use \$2 million to develop the Delta Science Center.

During 2000-01, funds were appropriated to the DWR and disbursed via a \$1.9 million contract with the Delta Science Center. The expected completion date is June 2003.

- The University of California will use \$3 million for a Watershed Science Laboratory.

As of June 30, 2002, no funds have been appropriated.

River Protection Program—Resources Agency, Department of Water Resources, State Coastal Conservancy, Department of Parks and Recreation, Santa Monica Mountains Conservancy, and Wildlife Conservation Board

The act provides \$95 million to the River Parkway Subaccount (6015), for the acquisition and restoration of riparian habitat, riverine aquatic habitat, and other lands in close proximity to rivers and streams, and for river and stream trail projects. The Resources Agency will administer most of these funds; however, the DWR is responsible for distributing the San Joaquin River Conservancy's \$10 million for the San Joaquin River Parkway project.

A total of \$28.4 million was appropriated to the Resources Agency (RA). The RA awarded 13 contracts to federal and local agencies, and nonprofit organizations, averaging \$1.8 million per contract. The U.S. Fish and Wildlife Service received \$5 million for the Mapes Ranch acquisition. Four contracts have been completed. The remaining contracts have estimated completion dates during 2003-04.

The DWR was appropriated \$17.5 million. The DWR awarded three contracts to local agencies and nonprofit organizations: \$2.5 million for the Kern River Parkway Project, \$10 million for the San Joaquin River Parkway, and \$5 million for the Hamilton City area land acquisition. The estimated completion dates are March 2009, June 2003, and June 2006, respectively.

The State Coastal Conservancy (SCC) was appropriated \$21.5 million. The funds will be used for land acquisition and habitat restoration grants to local agencies and nonprofit organizations. The SCC awarded 14 contracts, averaging \$693,000 per contract. The Nature Conservancy received \$4.8 million for the Santa Clara River Parkway Camp and \$4.7 million for the

Otay River Parkway acquisitions. Twelve of the contracts have been completed. The remaining contracts have estimated completion dates during 2002-03.

The Department of Parks and Recreation was appropriated \$1.5 million; however, as of June 30, 2002, no contracts were issued.

The Santa Monica Mountains Conservancy (SMMC) was appropriated \$5 million. The SMMC contracted with the MRCA for \$5 million to purchase the Elysian Valley Marsh Street property. The acquisition was completed in January 2002.

The Wildlife Conservation Board (WCB) was appropriated \$14 million for wildlife land and easement acquisition grants to local agencies and nonprofit organizations. The WCB awarded eight contracts, averaging \$2 million per contract. The County of San Diego received \$6.1 million for the acquisition of the Santa Ysabel East and West properties. Five of the projects have been completed. The remaining projects are estimated to be completed during 2003-04.

Southern California Integrated Watershed Program—State Water Resources Control Board

The act provides \$235 million to the Santa Ana River Watershed Subaccount (6016), to rehabilitate and improve the Santa Ana River watershed.

A total of \$223.3 million was appropriated. The SWRCB awarded 23 contracts to the Santa Ana Watershed Project Authority (SAWPA), averaging \$9.2 million per contract. Twenty-two of the aforementioned contracts were re-awarded by SAWPA to various other entities. Some examples include \$20 million for the Arundo Removal Program, \$37 million for the Orange County Water District Groundwater Replenishment System, \$14 million for the San Bernardino Valley Municipal Water District's Baseline Feeder Project, and \$48 million for the Chino Basin Desalter Authority. The estimated completion dates range from September 2003 to May 2005.

Lake Elsinore and San Jacinto Watershed Program—State Water Resources Control Board

The act provides \$15 million to the Lake Elsinore and San Jacinto Watershed Subaccount (6017), to fund rehabilitation and water quality projects in the Lake Elsinore and San Jacinto Watersheds.

A total of \$14.7 million was appropriated. The SWRCB awarded two contracts to the Lake Elsinore and San Jacinto Watershed Authority for \$2 million and \$1 million, with estimated completion dates of June 2003 and March 2005, respectively.

Coastal Watershed Salmon Habitat Program—Department of Fish and Game

The act provides \$25 million to the Coastal Watershed Salmon Habitat Subaccount (6018), for direct expenditure and grants to protect, restore, acquire, and enhance salmon habitats.

A total of \$20.5 million was appropriated. The DFG awarded 56 contracts, averaging \$126,000 per contract, excluding \$12.5 million received by Save-the-Redwoods League for the Mill Creek acquisition. Ten contracts are complete with the remaining contracts estimated to be completed by mid 2003.

Nonpoint Source Pollution Control Program—State Water Resources Control Board

The act provides \$100 million to the Nonpoint Source Pollution Control Subaccount (6019), for grants and low interest loans that protect the beneficial use of water throughout the state through the control of nonpoint source pollution.

A total of \$42.7 million was appropriated. The SWRCB awarded six contracts, averaging \$689,000 per contract. The Los Osos Community Services District received \$2 million for the acquisition of land for a wastewater disposal and habitat mitigation project, which has been completed. The remaining projects are estimated to be completed by 2003-04.

Clean Water Program—State Water Resources Control Board

The Clean Water Program is funded from three subaccounts, as follows:

- The act provides and continuously appropriates \$30.5 million to the State Revolving Fund Loan Subaccount (6020), for loans pursuant to the Clean Water Act, of which \$7 million is for the Department of Toxic Substances Control (DTSC) to implement local groundwater remediation projects.

The State Revolving Fund Loan Subaccount is funded by various sources, and except as noted, no one contract is attributable solely to Proposition 13 funds. There was one \$81,000 interagency agreement between the SWRCB and the DTSC for the above-mentioned groundwater project that was attributable to Proposition 13 funds.

- The act provides and continuously appropriates \$34 million to the Small Communities Grant Subaccount (0418), for water treatment construction grants to small communities.

The SWRCB awarded 35 contracts, averaging \$820,000 per contract. Twenty projects have been completed. The remaining contracts are expected to be completed by 2004-05.

- The act provides \$35.5 million to the Wastewater Construction Grant Subaccount (6021), for water treatment construction grants to specified cities.

A total of \$33.5 million was appropriated. The SWRCB awarded three contracts: \$9.7 million to the City of Stockton, \$750,000 to the City of Orange Cove, and \$3.3 million to the City of Manteca. The estimated completion dates are April 2003, June 2003, and October 2003, respectively.

Water Recycling Program—State Water Resources Control Board

The act provides \$40 million to the Water Recycling Subaccount (0419), for water recycling loans and grants to local agencies.

A total of \$40 million was appropriated. The SWRCB awarded two contracts: \$3.2 million to the Lake County Sanitation District and \$417,000 to the Rincon del Diablo Municipal Water District. The estimated completion dates are February 2008 and November 2022, respectively.

Coastal Nonpoint Source Control Program—State Water Resources Control Board

The act provides \$90 million to the Coastal Nonpoint Source Control Subaccount (6022), for projects that protect the water quality and environment of coastal waters, estuaries, bays, and groundwater resources. Funds are disbursed in the form of grants and loans.

A total of \$72.1 million was appropriated. The SWRCB awarded 25 contracts, averaging \$788,000 per contract. A majority of the projects are three-year agreements, starting in July 2001 and ending by June 2004.

Seawater Intrusion Control—State Water Resources Control Board

The act provides and continuously appropriates \$25 million to the Seawater Intrusion Control Subaccount (0424), for local agency grants and loans to carry out seawater intrusion control projects.

The SWRCB awarded two contracts to the Pajaro Valley Water Management Agency for \$2.3 million and \$6.4 million. The \$2.3 million project is complete, while the \$6.4 million project is expected to be completed by 2022.

Water Conservation Programs—Department of Water Resources

The act provides \$155 million to the Water Conservation Account (6023), for the following uses:

Agricultural Water Conservation Program—\$35 million for loans to local agencies for the acquisition and construction of agricultural water conservation projects, and for financing feasibility studies.

Groundwater Recharge Facilities Program—\$30 million for grants and loans to fund projects in over-drafted groundwater basins, projects of critical need, projects with demonstrated feasibility, and projects in areas with groundwater management plans.

Infrastructure Rehabilitation Program—\$60 million for grants to local agencies in economically disadvantaged areas, with service connections that exceed 200 but are not greater than 16,000.

Urban Water Conservation Program—\$30 million for grants and loans to local agencies for urban water conservation projects.

A total of \$74 million was appropriated. The DWR awarded 74 contracts averaging \$487,000 per contract. The estimated completion dates are from 2002-03 to 2005-06.

Groundwater Storage Program—Department of Water Resources

The act provides \$200 million to the Conjunctive Use Subaccount (6025), for grants to local agencies for feasibility studies, project design, and construction of facilities for conjunctive use projects.

A total of \$101.4 million was appropriated. The DWR awarded 25 contracts, averaging \$4 million per contract. Nine of the contracts have estimated completion dates of June 2003, while the remaining contracts have not yet been executed.

Bay-Delta Multipurpose Water Management Program—Department of Water Resources

The act provides \$250 million to the Bay-Delta Multipurpose Water Management Subaccount (6026), to fund certain projects identified in the CALFED final environmental impact statement/environmental impact report on the Bay-Delta Program.

A total of \$38.3 million was appropriated. The DWR awarded one contract to the U. S. Bureau of Reclamation for \$20.6 million. These funds are to cover the State's share of restoration projects related to the Central Valley Project Improvement Act. The contract began on October 15, 2001 and will end on December 31, 2004.

Interim Water Reliable Supply and Water Quality Infrastructure and Management Program—Department of Water Resources

The act provides \$180 million to the Interim Water Reliable Supply and Water Quality Infrastructure and Management Subaccount (6027), to fund grants and loans to local agencies located in the Delta export service areas, for programs or projects that can be completed not later than March 8, 2009. This program is aimed at avoiding urgent water supply and water quality problems in the interim, before the CALFED program is finalized and implemented.

A total of \$166.7 million was appropriated. The DWR awarded 14 contracts, averaging \$11.4 million per contract. The Panoche Drainage District received \$17.5 million to acquire land, and to design and implement a plan to enhance water supply reliability and improve water quality. This contract is complete. The remaining contracts have estimated completion dates by March 2009.

REVIEW OF BOND EXPENDITURES

The information presented on the accompanying schedules was prepared from the accounts and financial transactions of the participating State departments, and in accordance with the modified accrual basis of accounting. This method follows the statutory accounting guidelines prescribed by the State of California, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under this method, revenues are recorded when they become measurable and available, and expenditures are recorded at the time the corresponding liability is incurred. We audited the actual financial information for accuracy, reasonableness, classification, and presentation; and found no material errors, exceptions, or misstatements. The information presented is for the period July 1, 2000 to June 30, 2002.

Proposition 12
 Schedule of Allocations, Appropriations, Expenditures, and Encumbrances by Agency
 For the Period July 1, 2000 to June 30, 2002

Schedule 1

Agency	Bond Act Section	Allocation Available for Program Expenses ⁴ A	Appropriation B	Expenditures ² C	Encumbrances ² D	Reserve for Commitments ¹ E	Appropriation Balance B-(C+D+E)	Unappropriated Allocation Balance A-B	Number of Projects ^{3, 6}
	5096.310								
Department of Parks and Recreation	a - j, l, y	\$1,226,568,000 ⁷	\$1,168,639,000 ⁷	\$283,265,368 ⁷	\$452,888,586 ⁷	\$ 0	\$432,485,046	\$57,929,000	1,265
California Conservation Corps	k, s	12,795,000	6,525,000	4,337,076	1,817,389	0	370,535	6,270,000	87
Wildlife Conservation Board	m	257,379,000	254,858,511	83,606,054	32,453,659	0	138,798,798	2,520,489	76
California Tahoe Conservancy	n	46,740,000	13,139,489	5,288,936	1,772,733	0	6,077,820	33,600,511	4
State Coastal Conservancy	o, w	238,591,000	226,200,185	42,388,335 ⁵	38,561,874	0	145,249,976	12,390,815	266
Santa Monica Mountains Conservancy	p	33,978,000	33,250,000	32,402,253	847,747	0	0	728,000	55
Coachella Valley Mountains Conservancy	q	4,854,000	4,854,000	2,392,816	0	0	2,461,184	0	13
San Joaquin River Conservancy	r	14,562,000	14,562,000	6,769,880	325,172	0	7,466,948	0	4
Department of Conservation	t	23,268,000	10,998,217	371,468	296,079	0	10,330,670	12,269,783	5
Department of Forestry and Fire Protection	u	8,545,000	4,229,842	374,540	2,163,218	85,418	1,606,666	4,315,158	66
Department of Fish and Game	v	10,681,000	2,885,353	1,326,134	540,629	0	1,018,590	7,795,647	32
California Integrated Waste Management Board	x	5,633,000	5,632,870	767,934	4,714,587	0	150,349	130	113
Resources Agency	z	43,621,000 ⁷	41,733,657 ⁷	2,760,286 ⁷	5,017,040 ⁷	0	33,956,331	1,887,343	9
Totals		\$1,927,215,000	\$1,787,508,124	\$466,051,080	\$541,398,713	\$85,418	\$779,972,913	\$139,706,876	1,995

1. Reserve for commitments includes funds set aside for particular projects, where contracts have been initiated but not yet executed.
 2. Expenditures and encumbrances are shown net of any adjustments.
 3. Additional projects may be under review and/or negotiation for which expenditures/encumbrances have not yet occurred.
 4. The amounts shown are net of \$172,785,000 in estimated statewide costs and future year obligations during the life of the program. This item includes estimated costs associated with legal support, auditing, coordination, accounting, budgeting, and program delivery for the 13 departments receiving Proposition 12 funds. Funds have been set aside from the allocation of each bond act section to share in these expenses, which are charged to support appropriations made to the Department of Parks and Recreation (DPR) and the Resources Agency (RA). The appropriations, expenditures, and encumbrances for these statewide costs are included in the respective DPR and RA totals.
 5. Amount is net of a \$900,000 support appropriation transfer from Proposition 12 to the State Coastal Conservancy Fund.
 6. For allocations (f) and (g), certain grants are counted as a single project, pending further action by the grantee to identify additional projects.
 7. This item includes statewide costs. See Note 4 for details.

Amounts in Column C are cumulative since program inception. Expenditures for the fiscal year ended June 30, 2002 totaled \$306,626,284.

Proposition 12
Schedule of Allocations, Appropriations, Expenditures, and Encumbrances by Bond Act Section
For the Period July 1, 2000 to June 30, 2002

Schedule 2

Bond Act Section	Purpose	Allocation Available for Program Expenses ^{4,5} A	Appropriation B	Expenditures ² C	Encumbrances ² D	Reserve for Commitments ¹ E	Appropriation Balance B-(C+D+E)	Unappropriated Allocation Balance A-B	Number of Projects ^{3,8}
5096.310									
a	General state parks programs	\$410,407,000	\$370,139,000	\$201,628,655	\$29,119,809	\$ 0	\$139,390,536	\$40,268,000	76
b	Stewardship projects relating to state parks	12,288,000	2,747,000	623,000	1,811,000	0	313,000	9,541,000	32
c	Volunteer participation in state parks	3,675,000	3,675,000	731,806	2,293,647	0	649,547	0	63
d	Grants to local agencies administering units of state park system	18,978,000	18,978,000	316,814	2,401,126	0	16,260,060	0	8
e	Competitive grants to local agencies - historical resources	8,833,000	8,833,000	155,456	30,974	0	8,646,570	0	0
f	Per-capita grants for local parks	368,164,000	372,664,000	15,994,225	285,477,777	0	71,191,998	(4,500,000)	6 738
g	Grants to local agencies pursuant to the Roberti-Z'berg Act	189,776,000	194,277,000	3,129,231	79,398,679	0	111,749,090	(4,501,000)	6 264
h	Grants to local agencies for riparian habitat	9,488,000	42,000	22,000	2,000	0	18,000	9,446,000	0
i	Grants to local agencies for nonmotorized trails	9,490,000	9,490,000	1,022,840	2,606,160	0	5,861,000	0	13
j	Grants that benefit youth projects	94,887,000	94,887,000	12,366,136	16,278,414	0	66,242,450	0	35
k	Resource conservation projects	991,000	991,000	939,687	0	0	51,313	0	54
l	Grants for urban recreation and regional youth sports	82,075,000	74,400,000	45,610,205	17,435,000	0	11,354,795	7,675,000	33
m	Resource conservation projects	257,379,000	254,858,511	83,606,054	32,453,659	0	138,798,798	2,520,489	76
n	Lake Tahoe conservation programs	46,740,000	13,139,489	5,288,936	1,772,733	0	6,077,820	33,600,511	4
o	Acquisition and restoration of coastal lands	209,468,000	197,077,185	37,653,951	26,281,329	0	133,141,905	12,390,815	193
p	Capital outlay and grants for SMMC and administration	33,978,000	33,250,000	32,402,253	847,747	0	0	728,000	55
q	Acquisition, development and protection of land	4,854,000	4,854,000	2,392,816	0	0	2,461,184	0	13
r	Acquisition, development and protection of land	14,562,000	14,562,000	6,769,880	325,172	0	7,466,948	0	4
s	Grants for local conservation corps	11,804,000	5,534,000	3,397,389	1,817,389	0	319,222	6,270,000	33
t	Grants for the Agricultural Land Stewardship Program	23,268,000	10,998,217	371,468	296,079	0	10,330,670	12,269,783	5
u	Grants for purchase and planting of trees	8,545,000	4,229,842	374,540	2,163,218	85,418	1,606,666	4,315,158	66
v	Development, restoration and preservation of habitat and wetlands	10,681,000	2,885,353	1,326,134	540,629	0	1,018,590	7,795,647	32
w	Projects and grants relating to S.F. Bay Area conservation	29,123,000	29,123,000	4,734,384	12,280,545	0	12,108,071	0	73
x	Grants to local agencies for public playgrounds	5,633,000	5,632,870	767,934	4,714,587	0	150,349	130	6 113
y	Rehabilitation or enhancement to a city park in Northern CA	14,231,000	14,231,000	34,000	14,135,000	0	62,000	0	3
z	River, watershed, parkway, and recreational projects	43,452,000	41,564,657	2,592,286	5,017,040	0	33,955,331	1,887,343	6 9
	Subtotals	1,922,770,000	1,783,063,124	464,252,080	539,499,713	85,418	779,225,913	139,706,876	1,995
	Appropriated DPR Statewide & Departmental Costs ⁷	4,276,000	4,276,000	1,631,000	1,899,000	0	746,000	0	
	Appropriated RA Statewide Costs ⁷	169,000	169,000	168,000	0	0	1,000	0	
	Totals	\$1,927,215,000	\$1,787,508,124	\$466,051,080	\$541,398,713	\$85,418	\$779,972,913	\$139,706,876	1,995

1. Reserve for commitments includes funds set aside for particular projects, where contracts have been initiated but not yet executed.

2. Expenditures and encumbrances are shown net of any adjustments.

3. Additional projects may be under review and/or negotiation for which expenditures/encumbrances have not yet occurred.

4. The amounts shown are net of \$172,785,000 in estimated statewide costs and future year obligations during the life of the program. This item includes estimated costs associated with legal support, auditing, coordination, accounting, budgeting, and program delivery for the 13 departments receiving Proposition 12 funds. Funds have been set aside from the allocation of each bond act section to share in these expenses, which are charged to support appropriations made to the Department of Parks and Recreation (DPR) and the Resources Agency (RA). The appropriations, expenditures, and encumbrances for these statewide costs are included in the respective DPR and RA totals on Schedule 1.

5. Amount is net of a \$900,000 support appropriation transfer from Proposition 12 to the State Coastal Conservancy Fund.

6. The overappropriations do not reflect the effects of subsequent reversions.

7. This item includes transactions related to the appropriated portion of the statewide costs described in Note 4. In addition to statewide costs, the DPR amount also includes costs for its specific bond programs, as follows: appropriations \$1,916,000; expenditures \$1,139,000; encumbrances \$97,000.

8. For allocations (f) and (g), certain grants are counted as a single project, pending further action by the grantee to identify additional projects.

Amounts in Column C are cumulative since program inception. Expenditures for the fiscal year ended June 30, 2002 totaled \$306,626,284.

Proposition 13
Schedule of Allocations, Appropriations, Expenditures, and Encumbrances by Agency
For the Period July 1, 2000 to June 30, 2002

Schedule 3

Agency	Bond Act Section	Allocation A	Appropriation B	Expenditures ² C	Encumbrances ² D	Reserve for Commitments ¹ E	Appropriation Balance B-(C+D+E)	Unappropriated Allocation Balance A-B	Number of Projects ³
Department of Water Resources	79045, 79033(a), 79035(a), 79055, 79060, 79065.2(a), 79067(a), 79068.2, 79069.6, 79090, 79100(a), 79152, 79172, 79194, 79205.4(a)	\$1,154,500,000	\$565,762,209	\$134,141,911	\$190,067,526	\$146,282,655	\$95,270,117	\$518,337,791 ⁵	313
State Water Resources Control Board	79121(b), 79136, 79149.2(a), 79075, 79104.22(a), 79112, 79104.100(a), 79121(a), 79121(c), 79148.4	695,000,000	556,506,000	46,772,280	256,706,766	13,471,000	239,555,954	138,494,000	111
Department of Conservation	79033.2(a)	2,500,000	1,008,053	648,376	119	0	359,558	1,491,947	1
Resources Agency	79100(a)	^ε	28,400,000	11,258,180	11,640,380	0	5,501,440	0	13
Department of Parks and Recreation	79100(a)	^ε	1,500,000	0	0	0	1,500,000	0	0
Wildlife Conservation Board	79100(a)	^ε	14,000,000	8,230,768	3,275,000	0	2,494,232	0	8
State Coastal Conservancy	79100(a)	^ε	21,500,000	4,845,009	4,859,709	0	11,795,282	0	14
Santa Monica Mountains Conservancy	79100(a)	^ε	5,000,000	4,985,000	0	0	15,000	0	1
Department of Fish and Game	79104.200, 79068.14	45,000,000	20,457,871	13,524,947	6,027,435	283,505	621,984	24,542,129	56
University of California	79094	3,000,000	0	0	0	0	0	3,000,000	0
Department of Health Services	79021	70,000,000	70,000,000	16,939,372	9,367,213	0	43,693,415	0	7
Subtotals		1,970,000,000	1,284,134,133	241,345,843	481,944,148	160,037,160	400,806,982	685,865,867	524
Net Bond Issuance and Audit Costs ⁴				3,617,979			(3,617,979)		
Totals		\$1,970,000,000	\$1,284,134,133	\$244,963,822	\$481,944,148	\$160,037,160	\$397,189,003	\$685,865,867	524

1. Reserve for commitments includes funds set aside for particular projects, where contracts have been initiated but not yet executed.

2. Expenditures and encumbrances are shown net of any adjustments.

3. Additional projects may be under review and/or negotiation for which expenditures/encumbrances have not yet occurred.

4. Net bond issuance and audit costs recorded at the Fund 6001 level. Refer to DWR's management letter, finding 1, for explanation.

5. Specific allocation amounts were not identified for these departments. The amounts are contained in DWR's allocation, and the departments' appropriations are deducted from DWR's unappropriated allocation balance.

Amounts in Column C are cumulative since program inception. Expenditures for the fiscal year ended June 30, 2002 totaled \$163,583,580.

Proposition 13
Schedule of Allocations, Appropriations, Expenditures, and Encumbrances by Bond Act Section
For the Period July 1, 2000 to June 30, 2002

Schedule 4

Bond Act Section	Fund Number	Fund Name	Allocation A	Appropriation B	Expenditures ² C	Encumbrances ² D	Reserve for Commitments ¹ E	Appropriation Balance B-(C+D+E)	Unappropriated Allocation Balance A-B	Number of Projects ³
79021	0629	Safe Drinking Water State Revolving Fund	\$70,000,000	\$70,000,000	\$16,939,372	\$9,367,213	\$0	\$43,693,415	\$0	7
79033(a)	6003	Floodplain Mapping Subaccount	2,500,000	2,375,000	1,170,885	1,193,696	0	10,419	125,000	3
79033.2(a)	6004	Agriculture and Open Space Mapping Subaccount	2,500,000	1,008,053	648,376	119	0	359,558	1,491,947	1
79035(a)	6005	Flood Protection Corridor Subaccount	70,000,000	38,751,358	25,297,070	4,951,907	90,000	8,412,381	31,248,642	4
79045	0409	Delta Levee Rehabilitation Subaccount	30,000,000	30,000,000	11,760,698	5,916,996	9,111,472	3,210,834	0	128
79055	6006	Flood Control Subventions Subaccount	45,000,000	42,750,000	10,654,833	32,095,167	0	0	2,250,000	11
79060	6007	Urban Stream Restoration Subaccount	25,000,000	12,905,341	1,608,587	11,001,383	0	295,371	12,094,659	37
79065.2(a)	6008	State Capital Protection Subaccount	20,000,000	20,000,000	4,903,536	1,244,981	0	13,851,483	0	1
79067(a)	6009	San Lorenzo River Flood Control Subaccount	2,000,000	1,900,000	1,900,000	0	0	0	100,000	1
79068.2	6010	Yuba Feather Flood Protection Subaccount	90,000,000	13,547,080	4,309,905	2,880,780	0	6,356,395	76,452,920	9
79069.6	6011	Arroyo Pasajero Watershed Subaccount	5,000,000	677,000	0	0	0	677,000	4,323,000	0
79075	6013	Watershed Protection Subaccount	90,000,000	40,648,000	4,745,224	7,942,615	0	27,960,161	49,352,000	13
79090	6014	Water and Watershed Education Subaccount	8,000,000	4,750,000	193,980	2,656,020	1,900,000	0	3,250,000	2
79100(a)	6015	River Protection Subaccount	95,000,000	87,900,000	31,683,182	34,895,864	0	21,320,954	7,100,000	39
79104.100(a)	6017	Lake Elsinore and San Jacinto Watershed Subaccount	15,000,000	14,654,000	1,440,748	595,297	1,051,000	11,566,955	346,000	2
79104.200	6018	Coastal Watershed Salmon Habitat Subaccount	25,000,000	20,457,871	13,524,947	6,027,435	283,505	621,984	4,542,129	56
79104.22(a)	6016	Santa Ana River Watershed Subaccount	235,000,000	223,345,000	2,324,840	204,182,803	6,000,000	10,837,357	11,655,000	23
79112	6019	Nonpoint Source Pollution Control Subaccount	100,000,000	42,715,000	527,965	4,136,657	0	38,050,378	57,285,000	6
79121(a)	6020	State Revolving Fund Loan Subaccount	30,500,000	30,500,000	7,177,503	0	0	23,322,497	0	0
79121(b)	0418	Small Communities Grant Subaccount	34,000,000	34,000,000	17,747,397	11,628,537	0	4,624,066	0	35
79121(c)	6021	Wastewater Construction Grant Subaccount	35,500,000	33,543,000	7,604,902	6,162,188	0	19,775,910	1,957,000	3
79136	0419	Water Recycling Subaccount	40,000,000	40,000,000	3,200,673	1,597,717	0	35,201,610	0	2
79148.4	6022	Coastal Nonpoint Source Control Subaccount	90,000,000	72,101,000	2,003,028	18,210,788	0	51,887,184	17,899,000	25
79149.2(a)	0424	Seawater Intrusion Control Subaccount	25,000,000	25,000,000	0	2,250,164	6,420,000	16,329,836	0	2
79152	6023	Water Conservation Account	155,000,000	74,006,536	872,907	495,842	33,806,048	38,831,739	80,993,464	74
79172	6025	Conjunctive Use Subaccount	200,000,000	101,446,000	1,301,852	724	100,004,450	138,974	98,554,000	25
79194	6026	Bay-Delta Multipurpose Water Management Subaccount	250,000,000	38,371,894	21,889,193	1,791,318	1,370,685	13,320,698	211,628,106	1
79205.4(a)	6027	Interim Water Supply and Water Quality Infrastructure and Management Subaccount	180,000,000	166,782,000	45,914,240	110,717,937	0	10,149,823	13,218,000	14
Subtotals			1,970,000,000	1,284,134,133	241,345,843	481,944,148	160,037,160	400,806,982	685,865,867	524
Net Bond Issuance and Audit Costs ⁴					3,617,979			(3,617,979)		
Totals			\$1,970,000,000	\$1,284,134,133	\$244,963,822	\$481,944,148	\$160,037,160	\$397,189,003	\$685,865,867	524

1. Reserve for commitments includes funds set aside for particular projects, where contracts have been initiated but not yet executed.

2. Expenditures and encumbrances are shown net of any adjustments.

3. Additional projects may be under review and/or negotiation for which expenditures/encumbrances have not yet occurred.

4. Net bond issuance and audit costs recorded at the Fund 6001 level. Refer to DWR's management letter, finding 1, for explanation.

Amounts in Column C are cumulative since program inception. Expenditures for the fiscal year ended June 30, 2002 totaled \$163,583,580.

FINDINGS AND RECOMMENDATIONS

In planning and performing our audit of Proposition 12 and 13 expenditures, we reviewed the applicable internal control of departments administering bond funds to determine areas of risk and to identify where the control and accountability for bond funds could be improved. In general, we found that bond funds and bond-acquired assets were adequately accounted, safeguarded, and reported in compliance with the bond acts and State fiscal requirements. However, we also noted a number of conditions that require corrective action to improve program operations. The conditions illustrate the importance of designing controls that enhance departments' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Section 1 includes program management and accountability conditions applicable to all departments, while *Section 2* includes conditions reported to specific departments.

Section 1—Statewide Issues Applicable to All Departments

All departments should review the following conditions and take appropriate actions to coordinate activities and ensure that adequate controls exist in their respective bond programs.

Finding 1—The Coordination of Grant Awards Should Be Improved. We found that grantees may receive funding from two or more departments to complete the same or a similar project, without the awarding departments' knowledge of each others' project and funding. As a result, the risk of funding duplication is high. Because project funding decisions made by one department may also affect another department's program, it is essential that all parties involved in the project coordinate activities and funding. To ensure full accountability and prevent duplication of funding, we recommend that a lead department develop and implement procedures, such as a consolidated project database, to coordinate the disbursement of project funds among departments. Projects should not be approved or grants awarded before consulting this consolidated information.

Finding 2—Grant/Contract Language Should Be Improved. In our prior audit report, we noted that grant/contract language was vague with respect to critical performance and accountability requirements. Our conclusion was based on inspection of grants/contracts at a few departments. This year, we expanded our review to several additional departments and found that this weakness is more prevalent than previously reported. Many grants/contracts are still not prepared in accordance with State Contracting Manual requirements, and continue to lack specific effective dates or performance periods, adequate scope of work, sources of project funding, or expenditure budgets. We also found that grant/contract language is vague or silent with respect to eligible and ineligible costs, and does not address the disposition of unused grant funds, interest earned on grant funds, and revenue generated from bond-funded property (e.g. lease income). Vague grant/contract language increases the risk that projects will not be completed timely or cost effectively, raises the possibility of disputes, and impairs effective grant/contract management. We recommend that departments include the following provisions

in all grants/contracts: (1) a specific term for the performance or completion of the project (dates or length of time); (2) a clear description of the project scope, including the work, service, or product to be performed, rendered, or provided; (3) line-item expenditure budgets; (4) amounts and sources of all project funding; (5) definition of eligible and ineligible costs; and (6) disposition of unused grant funds, interest earned on grant funds, and revenue generated from bond-funded property.

Section 2—Issues Reported to Individual Departments

We reported the following internal control weaknesses to individual departments via separate management letters (included on the following pages). While many of these conditions were noted at more than one department, due to materiality factors, some conditions may not have been included in each department's management letter. Departments should review all of the enclosed management letters, assess applicability to their bond programs, and take corrective action as necessary. Because responses have already been obtained for these findings, additional departmental comment is not required. Our evaluation of the responses is summarized at the end of this section.

Summary of departmental findings:

- Lack of an allocation plan and methodology to distribute Proposition 13 bond issuance and audit costs to the applicable departments, subsidiary funds, and subaccounts.
- Contract procedures and monitoring could be improved.
- Encumbrances and expenditures are not accurately recorded, reviewed, or reported.
- Vendor edit processes are not adequately controlled.
- Monthly reconciliations are not prepared or reviewed timely.
- Inadequate separation of duties.
- Inadequate reporting of real property.
- Controls over allocated costs could be improved.

WILDLIFE CONSERVATION BOARD
MANAGEMENT LETTER AND RESPONSES



May 20, 2003

Mr. Al Wright, Executive Director
Wildlife Conservation Board
1807 13th Street, Suite 103
Sacramento, CA 95814

Dear Mr. Wright:

Management Letter—Audit of Proposition 12 and 13 Bond Funds

In response to the Governor's November 9, 1999 directive, the Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Wildlife Conservation Board's (Board) funding under the Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act (Proposition 12), and the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bond Act (Proposition 13), as of June 30, 2002. Specifically, our audit included a limited review of internal controls for Proposition 12 and 13 expenditures (support, local assistance, and capital outlay), and a determination as to whether these expenditures were in compliance with the bond acts, budget change proposals, and the Board's policies and procedures. In general, we found that the Board's expenditures were in compliance. However, we noted the following conditions requiring corrective action:

FINDING 1 Inaccurate Recording and Reporting of Encumbrances/Expenditures

Condition: We noted the following instances of inaccurate recording and reporting of encumbrances and expenditures for the fiscal year ended June 30, 2002:

- Proposition 12 capital outlay encumbrances were understated by \$7,960,000 due to the omission of valid contracts for the Chorro Creek Ecological Reserve and San Felipe Wildlife Area Expansion II projects. Further, expenditures and encumbrances were understated and overstated, respectively, by \$14,531,311 due to valid expenditure accruals misclassified as encumbrances. Section 10608 of the State Administrative Manual (SAM) requires a review of encumbrances for validity, and Section 7952 requires an accurate determination of expenditure accruals at each June 30.
- Proposition 13 capital outlay encumbrances were understated by \$3,275,000 due to the omission of the valid San Diego River Valley Corridor contract. Further, two recorded San Joaquin River Riparian Habitat projects (SJRC 9 Cobb and SJRC 11 Spano, in the amounts of \$3,423,880 and \$892,600, respectively) were not disclosed in the year end Report of Accruals to Controller's Accounts, as required by Department of Finance Budget Letter 01-10.

These conditions resulted from inadequate accounting and administrative controls designed to ensure the accuracy and reliability of accounting data, as specified in section 13403 of the Government Code. Inaccurate encumbrance and expenditure accruals may preclude the Board from identifying funds available for bond projects.

Recommendation: Review outstanding encumbrances and expenditure accruals for validity and proper classification at each June 30, and accurately report the amounts in year-end financial statements.

FINDING 2 Inadequate Reporting of Real Property

Condition: We noted the following instances of inaccurate Proposition 12 and 13 property reporting, for the fiscal year ended June 30, 2002:

- The Board did not identify real property by funding source in its General Fixed Assets Account Group as required by SAM section 8622. Property acquired from all funding sources is combined in the Account.

This is a recurring condition from a prior audit.

- The Board does not reconcile its real property transactions to the Department of General Services' (DGS) Statewide Real Property Inventory (SRPI) as required by SAM section 7924. Further, as of January 2003, only 7 of 19 SRPI transactions were reported to the DGS as required by SAM section 1335.1.

As a result of these weaknesses, the Board may be unable to accurately determine the value of its real estate holdings by funding source. The non-reporting of transactions to the DGS precludes effective statewide asset accountability.

Recommendations: A. Separately identify all Proposition 12 and 13 property in the General Fixed Assets Account Group.

B. Reconcile and report all real property acquisitions to the DGS.

FINDING 3 Contracting Procedures Should Be Improved

Condition: The Board should improve its contracting procedures to specify which costs are eligible for reimbursement. For example, expenditure terms were vague in grant contract WC-1007DM, which provided \$1,049,000 in Proposition 12 funds to acquire a conservation easement. The actual cost of the easement was \$1,033,600, and the Board's contract manager verbally approved payment of the remaining \$15,400 for the grantee's personnel, benefits, consultants, and other costs. These additional costs were not identified in the contract, which was silent regarding specific costs eligible for reimbursement, and the contract did not permit verbal modifications.

Without specific expenditure budgets, the Board may be unable to monitor contractor performance and use of funds. Verbal amendments may also expose the Board to risks without management's knowledge.

Recommendation: The Board should revise its standard grant contract language and specify which costs are allowable for reimbursement. Enforce compliance with contract terms and require written amendments for departures from the original contract.

The findings in this management letter are based on fieldwork performed in December 2002. We conducted our work in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

We discussed these findings with Board management on January 30, 2003. Please respond to the above findings within ten working days of your receipt of this letter. Your response should include the status of corrective action planned or taken on the findings and recommendations. The response may be included in our report to the Governor's Commission on Building for the 21st Century, covering all of the Proposition 12 and 13 departments.

We appreciate the Board's cooperation with our audit. If you have any questions regarding this letter, please contact Richard R. Sierra, Manager, at (916) 322-2985, Ext. 3159, or Mary Camacho, Supervisor, at Ext. 3133.

Sincerely,



Samuel E. Hull, CPA
Chief, Office of State Audits and Evaluations
(916) 322-2985

cc: Ms. Elaine Berghausen, Deputy Assistant Secretary, Resources Agency
Ms. Roxanne Woodward, Budget Officer, Wildlife Conservation Board
Mr. William J. Fong, Chief, Fiscal and Administrative Services Branch, Department of Fish and Game



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Executive Director
Wildlife Conservation Board

June 4, 2003



Mr. Samuel E. Hull, CPA
Chief, Office of State Audits and Evaluations
Department of Finance
915 L Street
Sacramento, California 95814

Dear Mr. Hull:

We are in receipt of the Department of Finance's Management Letter of May 20, 2003 on the Proposition 12 and Proposition 13 bond fund audit for Fiscal Year 2001-02. Our response to these findings is as follows:

**FINDING 1: Inaccurate Recording and Reporting of
Encumbrances/Expenditures**

Please be advised the Department of Fish and Game (DFG) performs the accounting and reporting requirements for the Wildlife Conservation Board (WCB) including the preparation and submission of its Year-end Financial Statements.

The Proposition 12 projects cited as being understated (Chorro Creek Ecological Reserve and San Felipe Wildlife Area, Expansion 2) involve property acquisitions. At year-end closing, the Board reported the allocations for these two projects on its accrual worksheets. To our knowledge, these project funds were accrued and accounted for. However, there is a possibility that the finding may be a result of other project allocations not reflected in the 2001-02 Year-end Financial Statements. To correct any potential reporting errors, WCB spoke with Department of Finance staff (Fiscal Systems and Consulting and CALSTARS Units) and reviewed its past practices for its Capital Outlay accruals to ensure that we are correctly reporting the accruals. In that regard, WCB will now provide a copy of its accrual listing to staff on the General Ledger unit at DFG, for each fund involved, to reconcile with the Year-end Financial Statements.

We are in agreement that a Proposition 13 encumbrance was understated when DFG neglected to report information supplied to them by WCB. Under our standard practice, WCB submitted an encumbrance face sheet and two copies of the executed Grant Agreement to DFG following the February 2002 Board action.

The omission was not caught by Board staff until September 2002 at which time DFG was again notified and the Grant Agreement was subsequently encumbered. We are taking corrective action to review and reconcile, on a quarterly basis, the CALSTARS D-16 Report and notify DFG in writing of any discrepancies.

With regard to two Proposition 13 Property Acquisition Agreements for San Joaquin River Conservancy (SJRC) projects (SJRC 9 Cobb and SJRC 11 Spano), we offer the following: Pursuant to the 2000-01 Budget Act, the Board entered into an Interagency Agreement with the Department of Water Resources (DWR) to perform certain activities on behalf of the SJRC. Upon request by WCB, that agreement allows DWR to place land acquisition funds directly into a designated escrow account. Believing that reporting these DWR funds by WCB would result in double accounting, the Board did not report these project amounts to DFG for accrual. Based on the issues raised in the Management Letter, we now understand the need to report and disclose this type of transaction and will do so in the future.

The DFG may wish to comment further on the issues outlined in Finding 1.

FINDING 2: Inadequate Reporting of Real Property

While WCB does perform certain land acquisition activities on behalf of the DFG, the DFG handles the required reporting relative to the General Fixed Assets Account. In that regard, WCB defers to DFG to respond to this finding. DFG is also responsible for the reconciliation of the real property transactions to the Department of General Services' (DGS) Statewide Real Property Inventory (SRPI). We would therefore defer to DFG on this issue as well.

The WCB is responsible for transmitting the land acquisition transactions to the DGS for inclusion in the SRPI. The Management Letter noted that only 7 of 19 closing packages for 2001-02 acquisition project approvals were sent to DGS to inventory as of January 2003. As noted in the finding, SAM Section 1335 requires State agencies that acquire real property to provide information to DGS for inclusion in the State Property Inventory. WCB does acquire real property on behalf of DFG and routinely submits information to DGS as required. Section 1335 does not impose a deadline for the submission of the information, but WCB has routinely prepared and submitted "closing packages" as soon as possible after the properties have closed escrow and the title policy and recorded deed are received.

As to our process, land acquisition closing packages are not prepared unless and until escrow closes and the properties are actually acquired. We must await receipt of certain documents before reporting, to ensure DGS receives the official recorded deed description and final title policy information on the acquisition. It is not unusual for an approved acquisition to take several months

Mr. Samuel E. Hull
June 4, 2003
Page 3

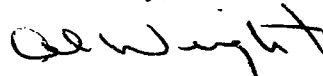
to close escrow and for the closing package to be forwarded to DGS. Most projects are reported within 6 to 8 months of the board approval date, but it is not unusual for complex, multi-party projects to close over a year after the board action and take another 3 to 4 months to receive all pertinent documents needed to prepare the closing package. If you would like to have specific information on the status of any of the approved projects you have noted have not been reported, please let us know which project you are interested in and we will provide that information.

FINDING 3: Contracting Procedures Should Be Improved

The Board internally reviewed this issue in April 2003 when it was first brought to our attention by the Department of Finance. Our standard Grant Agreement language includes a clause that the funds may be used for the purchase price only. Occasionally, we will allow for the payment of costs incurred in negotiating the purchase, including appraisal costs, environmental review costs and staff costs. In those rare instances, the standard Grant Agreement language is modified to reflect this type of reimbursement. Unfortunately, in the case of Grant Agreement WC-1007DM, staff handling this particular agreement deleted the paragraph in its entirety which resulted in the agreement being silent regarding specific costs eligible for reimbursement. We have taken corrective action to ensure this type of omission does not occur in the future. The corrective action includes modifying our procedures to stipulate that if staff has a need to deviate from our standard Grant Agreement provisions, they are required to discuss and obtain advance approval from their supervisor. Additionally, staff will be required to document the file regarding the reason for any change from the standard provisions.

We appreciate the opportunity to respond to this Management Letter and look forward to our continued working relationship with Department of Finance staff.

Sincerely,



Al Wright
Executive Director

cc: Ms. Elaine Berghausen, Resources Agency
Mr. Michael Harris, Department of Fish and Game
Mr. William J. Fong, Department of Fish and Game
Ms. Roxanne Woodward, Wildlife Conservation Board

**DEPARTMENT OF FISH AND GAME**

1416 NINTH STREET
P.O. BOX 944209
SACRAMENTO, CA 94244-2090

June 19, 2003

Mr. Samuel E. Hull, CPA
Chief, Office of State Audits and Evaluations
Department of Finance
915 L Street
Sacramento, California 95814

Dear Mr. Hull:

We are in receipt of the Department of Finance's Management Letter of May 20, 2003 addressed to the Executive Director of the Wildlife Conservation Board on the Proposition 12 and Proposition 13 bond fund audit for Fiscal Year 2001-02. The Department of Fish and Game (DFG) performs the accounting and reporting requirements for the Wildlife Conservation Board (WCB) including the preparation and submission of its Year-end Financial Statements. The following are our responses as they apply to DFG. WCB has provided their response under a separate cover.

FINDING 1: Inaccurate Recording and Reporting of Encumbrance/Expenditures

We are in agreement that Proposition 12 and Proposition 13 encumbrances were understated and that there needs to be better controls to ensure accuracy and reliability of accounting data. DFG General Ledger staff will be taking corrective action by reviewing the CALSTARS D16 Report more thoroughly and coordinating with the DFG Claims Unit staff to correct any discrepancies.

At year-end, WCB will be providing an accrual listing to the General Ledger staff for each fund involved, to reconcile with the Year-End Financial Statements. This will provide DFG the assurance that all expenditure accruals for each fund are reported accurately.

Mr. Samuel E. Hull
June 19, 2003
Page 2

FINDING 2: Inadequate Reporting of Real Property

We are in agreement that the General Fixed Assets Group was not separately identified by funding source as required by SAM Section 8622. DFG has taken steps to correct the inaccuracy of the reporting by individual funding source. DFG now orders a CALSTARS G05 Report, after each fiscal month to ensure that the entries into CALSTARS were keyed correctly and are posted to the correct funding source.

In regards to reconciling property acquisitions with DGS, DFG staff has been redirected to improve upon and implement a process for reconciliation with DGS.

FINDING 3: Contracting Procedures Should Be Improved

WCB has responded to this finding.

Should you have any questions, or need additional information, please contact Mr. William J. Fong, Chief of the Fiscal and Administrative Branch at (916) 653-4895.

Sincerely,



Michael F. Harris
Deputy Director of Administration

cc: Ms. Elaine Berghausen, Resources Agency
Mr. William J. Fong, Chief, FASB, Department of Fish and Game
Ms. Roxanne Woodward, Budget Officer, Wildlife Conservation Board
Mr. Al Wright, Executive Director, Wildlife Conservation Board

SAN JOAQUIN RIVER CONSERVANCY ALLOCATION (VIA THE
WILDLIFE CONSERVATION BOARD/DEPARTMENT OF FISH AND GAME)
MANAGEMENT LETTER AND RESPONSES

Note: The San Joaquin River Conservancy allocation of Proposition 12 funds has been appropriated to and administered by the Wildlife Conservation Board, with fiscal accounting and reporting responsibilities assigned to the Department of Fish and Game.



May 20, 2003

Mr. Jack Reagan, Interim Executive Officer
San Joaquin River Conservancy
5469 East Olive Avenue
Fresno, CA 93727

Dear Mr. Reagan:

Management Letter—Audit of Proposition 12 Bond Funds

In response to the Governor's November 9, 1999 directive, the Department of Finance, Office of State Audits and Evaluations, has completed its audit of the San Joaquin River Conservancy's (Conservancy) funding under the Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act (Proposition 12), as of June 30, 2002. Specifically, our audit included a limited review of internal controls for Proposition 12 expenditures (support, local assistance, and capital outlay), and a determination as to whether these expenditures were in compliance with the bond act, budget change proposals, and the Conservancy's policies and procedures. In general, we found that the Conservancy's expenditures were in compliance. However, we noted the following condition requiring corrective action:

FINDING

Inaccurate Reporting of Encumbrances and Expenditures

Condition: At June 30, 2002, the Conservancy's reported encumbrances were overstated and expenditures understated by \$3,208,713. It appears that outstanding encumbrances and expenditure accruals were not reviewed for validity and proper classification as required by sections 10608 and 7952 of the State Administrative Manual. Inaccurate encumbrance and expenditure accruals may preclude the Conservancy from identifying funds available for bond projects.

Recommendation: Review outstanding encumbrances and expenditure accruals for validity and proper classification at each June 30, and accurately report the amounts in year-end financial statements.

The finding in this management letter is based on fieldwork that my staff performed in December 2002. We conducted our work in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

We discussed this finding with San Joaquin River Conservancy management on February 6, 2003. Please respond to the above finding within ten working days of your receipt of this letter. Your response should include the status of corrective action planned or taken on the finding and recommendation. The response may be included in our report to the Governor's Commission on Building for the 21st Century, covering all of the Proposition 12 departments.

We appreciate the Conservancy's cooperation with our audit. If you have any questions regarding this letter, please contact Richard R. Sierra, Manager, at (916) 322-2985, Ext. 3159, or Mary Camacho, Supervisor, at Ext. 3133.

Sincerely,

A handwritten signature in cursive script, reading "Samuel E. Hull".

Samuel E. Hull, CPA
Chief, Office of State Audits and Evaluations
(916) 322-2985

cc: Ms. Elaine Berghausen, Deputy Assistant Secretary, Resources Agency
Mr. Al Wright, Executive Director, Wildlife Conservation Board
Mr. William J. Fong, Chief, Fiscal and Administrative Services Branch, Department of
Fish and Game



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Al Wright
Executive Director
Wildlife Conservation Board

June 5, 2003

Mr. Samuel E. Hull, CPA
Chief, Office of State Audits and Evaluations
Department of Finance
915 L Street
Sacramento, California 95814



Dear Mr. Hull:

We are in receipt of the Department of Finance's Management Letter of May 20, 2003 addressed to the Executive Officer of the San Joaquin River Conservancy (SJRC) on the Proposition 12 bond fund audit for Fiscal Year 2001-02. The SJRC's Capital Outlay funding is within the Wildlife Conservation Board's budget. Our response to this finding is as follows:

FINDING: Inaccurate Reporting of Encumbrances and Expenditures

We understand this finding involves a discrepancy between the CALSTARS BO6 Report and the Year-end Financial Statement. Please be advised the Department of Fish and Game (DFG) performs the accounting and reporting requirements for the Wildlife Conservation Board including the preparation and submission of its Year-end Financial Statements. Therefore, we need to defer to the DFG for a response to this finding.

We appreciate the opportunity to respond to this Management Letter and look forward to our continued working relationship with Department of Finance staff.

Sincerely,


for Al Wright
Executive Director

cc: Ms. Melinda S. Marks, San Joaquin River Conservancy
Ms. Elaine Berghausen, Resources Agency
Mr. Michael Harris, Department of Fish and Game
Mr. William J. Fong, Department of Fish and Game
Ms. Roxanne Woodward, Wildlife Conservation Board

**DEPARTMENT OF FISH AND GAME**

1416 NINTH STREET
P.O. BOX 944209
SACRAMENTO, CA 94244-2090

June 13, 2003

Mr. Samuel E. Hull, CPA
Chief, Office of State Audits and Evaluations
Department of Finance
915 L Street
Sacramento, California 95814

Dear Mr. Hull:

We are in receipt of the Department of Finance's Management Letter of May 20, 2003 addressed to the Executive Office of the San Joaquin River Conservancy (SJRC) on the Proposition 12 bond fund audit for Fiscal Year 2001-02. The SJRC's Capital Outlay funding is within the Wildlife Conservation Board's budget. Department of Fish and Game (DFG) performs the accounting and reporting requirements for the Wildlife Conservation Board including the preparation and submission of its Year-end Financial Statements.

FINDING: Inaccurate Reporting of Encumbrances and Expenditures

DFG has reviewed the fiscal year 2001/02 Year-end Financial Statements and found that the total amount of encumbrances reported included the account payable totals. We agree with the finding and DFG has taken steps to ensure the encumbrances and expenditure accruals are reported accurately. We will review the outstanding encumbrance reports and check the expenditure accruals for validity and proper classification at each June 30, and accurately report the amounts in the year-end financial statements.

Should you have any questions, or need additional information, please contact Mr. William J. Fong, Chief of the Fiscal and Administrative Services Branch at (916) 653-4895.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael F. Harris".

Michael F. Harris
Deputy Director of Administration

cc: Ms. Melinda S. Marks, San Joaquin River Conservancy
Ms. Elaine Berghausen, Resources Agency
Mr. Al Wright, Executive Director, Wildlife Conservation Board
Mr. William J. Fong, Chief, FASB, Department of Fish and Game

CALIFORNIA CONSERVATION CORPS
MANAGEMENT LETTER AND RESPONSE



April 29, 2003

Mr. H. Wes Pratt, Director
California Conservation Corps
1719 24th Street
Sacramento, CA 95816

Dear Mr. Pratt:

Management Letter—Audit of Proposition 12 Bond Funds

In response to the Governor's November 9, 1999 directive, the Department of Finance, Office of State Audits and Evaluations, has completed its audit of the California Conservation Corps' (Corps) funding under the Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (Proposition 12), as of June 30, 2002. Specifically, our audit included a limited review of internal controls for Proposition 12 expenditures (support, local assistance, and capital outlay), and a determination as to whether these expenditures were in compliance with the bond act, budget change proposals, and the Corps' policies and procedures. In general, we found that the Corps' expenditures were in compliance. However, we noted the following condition requiring corrective action.

FINDING

Accruals Are Not Properly Recorded, Reviewed, or Reported

Condition:

The Corps did not properly record, review, or report its accrued expenditures. We noted that the accruals were not based on valid, documented obligations or actual expenditures, as required by sections 10608 and 7221 of the State Administrative Manual. As a result, the year-end accruals were overstated, as follows:

- The Corps accrued \$159,671 in support expenditures for the fiscal year ended June 30, 2002. However, as of December 31, 2002, only \$27,000 in accrued expenditures were liquidated, and the Corps was unable to provide documentation for the balance. As a result, support expenditures were overstated \$132,671 for the fiscal year ended June 30, 2002.
- The Corps accrued \$117,500 in support expenditures for the fiscal year ended June 30, 2001. However, as of June 30, 2002, only \$13,802 in accrued expenditures were liquidated, and the Corps was unable to provide documentation for the balance. As a result, support expenditures were overstated \$103,698 for the fiscal year ended June 30, 2001.

Recommendation: Accurately record and report year-end accruals. Ensure that accruals are based on valid obligations or actual expenditures and are supported by adequate documentation.

The finding in this management letter is based on fieldwork that my staff performed during November and December 2002. We conducted our work in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

We discussed the finding with Corps management on February 11, 2003. Please respond to the above finding within ten working days of your receipt of this letter. Your response should include the status of corrective action planned or taken on the finding and recommendation. The response may be included in our report to the Governor's Committee on Infrastructure, covering all of the Proposition 12 departments.

We appreciate the Corps' cooperation with our audit. If you have any questions regarding this letter, please contact Richard R. Sierra, Manager, at (916) 322-2985, Ext. 3159, or Rick Cervantes, Supervisor, at Ext. 3164.

Sincerely,



Samuel E. Hull, CPA
Chief, Office of State Audits and Evaluations
(916) 322-2985

cc: Mr. Greg Edwards, Chief, Financial Management Division, California Conservation Corps
Ms. Elaine Berghausen, Deputy Assistant Secretary, Bonds and Grants, Resources
Agency

CALIFORNIA CONSERVATION CORPS

Executive Office

1719 24th Street, Sacramento, CA 95816
(916) 341-3177



May 7, 2003

Samuel E. Hull
Chief, Office of State Audits and Evaluations
Department of Finance
915 "L" Street
Sacramento CA 95814

Dear Mr. Hull:

Management Letter–Audit of Proposition 12 Bond Funds

This letter is the California Conservation Corps (CCC) response to the Department of Finance April 29, 2003 Management Letter. The department agrees with the findings as articulated and has attached its Corrective Action Report.

We appreciate the professionalism of your staff, and the opportunity to sharpen the department's internal control procedures. If you have questions regarding this response, please contact Nena Thompson, Accounting Administrator at 341-3106 or Greg Edwards, Chief of Administrative Services at 341-3105.

Sincerely,

Patti Keating
for H. Wes Pratt
Director

Attachment

cc: Elaine Berghausen, Deputy Assistant Secretary, Bonds and Grants, Resources Agency
Patti Keating, Chief Deputy Director, CCC
Greg Edwards, Chief, ASD, CCC

CALIFORNIA CONSERVATION CORPS – 3340

Response to the Department of Finance Audit of Proposition 12 Bond Funds

Finding: Accruals are not properly recorded, reviewed or reported.

Condition: Accruals and support expenditures were not properly recorded, reviewed, or reported as of June 30, 2002. Accruals were not based on valid, documented obligations or actual expenditures. Accrued expenditures were not properly liquidated and unable to provide documentation for the balance as a result support expenditures were overstated for fiscal year ended June 30, 2002.

Accruals and support expenditures were not properly recorded, reviewed, or reported as of June 30, 2001. Accruals were not based on valid, documented obligations or actual expenditures. Accrued expenditures were not properly liquidated and unable to provide documentation for the balance as a result support expenditures were overstated for fiscal year ended June 30, 2001.

Recommendations:

Accurately record and report year-end accruals. Ensure that accruals are based on valid obligations or actual expenditures and supported by adequate documentation.

Corrective Action Taken:

- a. Fully Corrected: Yes Date Corrected: May 2003
- b. Partially Corrected: Anticipated Date Corrected:
- c. Remains Uncorrected/Agree with finding:
- d. Remains Uncorrected/Disagree with finding:

Explanation:

FY 00-01 Accruals and actual expenditures were corrected in June 2002.

FY 01-02 Accruals and actual expenditures were corrected in May 2003

FY 02-03 Effective May 2003, the Accounting Office will review and post actual expenditures based on documentation which shall be submitted on a monthly basis.

RESOURCES AGENCY
MANAGEMENT LETTER AND RESPONSE



April 8, 2003

Honorable Mary D. Nichols, Secretary
Resources Agency
1416 Ninth Street, Suite 1311
Sacramento, CA 95814

Dear Ms. Nichols:

Management Letter—Audit of Propositions 12 and 13 Bond Funds

In response to the Governor's November 9, 1999 directive, the Department of Finance, Office of State Audits and Evaluations (OSAE), has completed its audit of the Resources Agency's (Agency) funding under the Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (Proposition 12), and the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bond Act (Proposition 13), for the fiscal year ended June 30, 2002. Specifically, our audit included a limited review of internal controls for Proposition 12 and 13 expenditures (support, local assistance, and capital outlay), and a determination as to whether these expenditures were in compliance with the bond acts, budget change proposals, and the Agency's policies and procedures. In general, we found that the Agency's expenditures were in compliance. However, we noted the following condition requiring corrective action.

FINDING

Separation of Duties Should Be Improved

- Condition: The program manager oversees and monitors all fiscal and operational functions related to the Proposition 12 and 13 grants. Specifically, the program manager authorizes and monitors grants, and reviews and approves all claims. To reduce the potential for errors and irregularities, section 13403 of the Government Code requires a plan of organization that provides segregation of duties appropriate for the proper safeguarding of State agency assets.
- Recommendation: Separate grant authorization from claim approval duties. If unable to fully separate these duties, assign another employee to periodically review executed grants and payments for propriety.

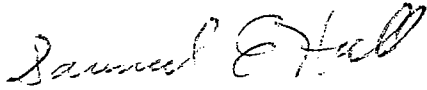
The finding in this management letter is based on fieldwork that my staff performed between October 2002 and December 2002. We conducted our work in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

We discussed the finding with Agency management on March 13, 2003. Please respond to the above finding within ten working days of your receipt of this letter. Your response should include the status of corrective action planned or taken on the finding and recommendation. The response may be included in our report to the Governor's Committee on Infrastructure, covering all of the Proposition 12 and 13 departments.

Honorable Mary D. Nichols
April 8, 2003
Page 2

We appreciate the cooperation and assistance provided by Agency staff and management. If you have any questions regarding this letter, please contact Richard R. Sierra, Manager, at (916) 322-2985, Ext. 3159, or Rick Cervantes, Supervisor, at Ext. 3164.

Sincerely,



Samuel E. Hull, CPA
Chief, Office of State Audits and Evaluations
(916) 322-2985

cc: Mr. Don Wallace, Assistant Secretary, Resources Agency
Ms. Elaine Berghausen, Deputy Assistant Secretary, Bonds and Grants, Resources Agency



A G E N C Y

May 1, 2003

Mr. Samuel E. Hull, CPA
Chief, Office of State Audits and Evaluations
Department of Finance
915 L Street
Sacramento, California 95814-3706

Re: Management Letter – Audit of Propositions 12 and 13 Bond Funds

Dear Mr. Hull:

Your management letter of April 8, 2003, indicates that the Resources Agency's separation of duties should be improved. Specifically, you found that the program manager oversees and monitors all fiscal and operational functions related to Proposition 12 and 13 grants, including authorizing and monitoring grants, and reviewing and approving all claims.

The Resources Agency had just one position available to perform all of these functions for approximately six months due to a vacant position. With staff now on board, duties have once again been segregated. The program manager will continue to authorize all grants, and the grants administrator will review and approve all payments. This segregation of duties, we believe, fully satisfies the requirements of Government Code Section 13403.

Thank you for the opportunity to comment on the audit findings. Should you have any questions, please contact Elaine Berghausen, Deputy Assistant Secretary, Bonds and Grants, at (916) 653-5656.

Yours sincerely,

Mary D. Nichols
Secretary for Resources



DEPARTMENT OF **F**ISH AND **G**AME
MANAGEMENT **L**ETTER AND **R**ESPONSE



June 20, 2003

Mr. Robert Hight, Director
Department of Fish and Game
1416 Ninth Street, 12th Floor
Sacramento, CA 95814

Dear Mr. Hight:

Management Letter—Audit of Proposition 12 and 13 Bond Funds

In response to the Governor's November 9, 1999 directive, the Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Department of Fish and Game's (Department) funding under the Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act (Proposition 12) and the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bond Act (Proposition 13), as of June 30, 2002. Specifically, our audit included a limited review of internal controls for Proposition 12 and 13 expenditures (support, local assistance, and capital outlay), and a determination as to whether these expenditures were in compliance with the bond acts, budget change proposals, and the Department's policies and procedures. In general, we found that the Department's expenditures were in compliance. However, we noted the following conditions requiring corrective action:

FINDING

Fiscal Activities are Not Properly Authorized or Monitored

Conditions:

We noted the following internal control weaknesses for the fiscal year ended June 30, 2002:

- A. **The Vendor Edit Process is Not Adequately Controlled.** The Department has weak internal controls over the vendor add/edit process. Specifically, vendor edits are not reviewed and approved by a supervisor, and unauthorized users can update vendor information in CALSTARS. Government Code sections 13401 through 13407 require each State agency to maintain effective systems of internal accounting and administrative control. Without strict vendor edit control, the Department is exposed to risk of loss from payments to ineligible or fictitious vendors.
- B. **Contracting Procedures Could Be Improved.** The Department was unable to provide a listing of individuals authorized to approve contracts, as required by State Administrative Manual (SAM) section 1208. In light of the above vendor edit weaknesses, the Department may be unable to ensure that contracts are proper, authorized, and represent legitimate contractors.

C. Monthly Reconciliations are Not Prepared or Reviewed Timely.

The Department does not reconcile its Proposition 13 account information with the State Controllers Office (SCO) until several months after the transactions occur. Specifically, in ten of the twelve months reviewed, the Department prepared monthly reconciliations up to five months late. Further, none of the monthly reconciliations showed signs of review and approval by a supervisor. SAM sections 7901 and 7908 require monthly reconciliations be prepared within 30 days of the preceding month, and all reconciliations must show the preparer's name, reviewer's name, date prepared, and date reviewed. Untimely reconciliations with SCO records may lead to undetected, uncorrected errors and misstated financial statements.

- Recommendation:
- A. Review and approve all vendor edits and ensure that only authorized staff make changes to vendor information.
 - B. Maintain a current, written record of staff authorized to approve contracts.
 - C. Prepare, review, and approve all reconciliations within 30 days of the preceding month. Document evidence of approval.

The finding in this management letter is based on fieldwork performed in December 2002. We conducted our work in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

We discussed this finding with Department management on January 30, 2003. Please respond to the above finding within ten working days of your receipt of this letter. Your response should include the status of corrective action planned or taken on the finding and recommendations. The response may be included in our report to the Governor's Commission on Building for the 21st Century, covering all of the Proposition 12 and 13 departments.

We appreciate the Department's cooperation with our audit. If you have any questions regarding this letter, please contact Richard R. Sierra, Manager, at (916) 322-2985, Ext. 3159, or Mary Camacho, Supervisor, at Ext. 3133.

Sincerely,


Samuel E. Hull, CPA
Chief, Office of State Audits and Evaluations
(916) 322-2985

- cc: Mr. William J. Fong, Chief, Fiscal and Administrative Services Branch, Department of Fish and Game (DFG)
Mr. John Croft, Chief, Audits Branch, DFG
Ms. Elaine Berghausen, Deputy Assistant Secretary, Resources Agency

**DEPARTMENT OF FISH AND GAME**

1416 NINTH STREET
P.O. BOX 944209
SACRAMENTO, CA 94244-2090

August 5, 2003

Mr. Samuel E. Hull, CPA
Chief, Office of State Audits and Evaluations
Department of Finance
915 L Street
Sacramento, California 95814

Dear Mr. Hull:

We are in receipt of the Department of Finance's Management Letter of June 20, 2003 addressed to the Director of the Department of Fish & Game on the Proposition 12 and Proposition 13 bond fund audit for Fiscal Year 2001-02. The following are our responses.

FINDING: Fiscal Activities are Not Properly Authorized or Monitored

A. The Vendor Edit Process is not Adequately Controlled.

We are in agreement that the Department should strengthen its internal controls over the vendor add/edit process. The Department has taken corrective action by instituting procedures for vendor edits to be reported and reviewed by the supervisor. To ensure that only authorized staff are permitted to make changes to the vendor information, we have reviewed and updated the CALSTARS Security Forms to limit access to appropriate staff.

B. Contracting Procedures Could be Improved.

We are in agreement that the Department should maintain an updated listing of individuals authorized to approve contracts. These individuals will receive written authority by the Executive level to enter into and sign contracts on behalf of the Department.

Mr. Samuel E. Hull
August 5, 2003
Page 2

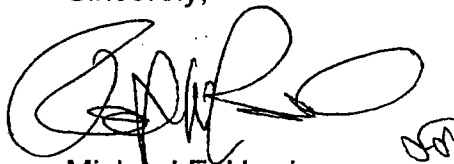
C. Monthly Reconciliations are Not prepared or Reviewed Timely.

We are in agreement that the Department should prepare the monthly reconciliations more timely. Within the branch, we have reallocated the workload and this has resulted in monthly reconciliations being more current. As the accounts are reviewed, they will be initialed and dated by the supervisor.

Although we are in agreement on this finding, the effects of the recent budget reductions in personnel services have made it extremely difficult to properly address our internal controls. The Department understands the importance and significance of adequate internal controls, but is faced with the reality of being short staffed and left with doing our best, given our limited personnel resources.

Should you have any questions, or need additional information, please contact Mr. Will Fong, Chief of the Fiscal and Administrative Branch at (916) 653-4895.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael F. Harris", with a small flourish to the right.

Michael F. Harris
Deputy Director of Administration

cc: Ms. Elaine Berghausen, Deputy Assistant Secretary, Resources Agency
Mr. Robert Boriskin, Assistant Deputy Director, DFG
Mr. Will Fong, Chief, Fiscal and Administrative Services Branch, DFG
Mr. Brian Kwake, Audits Branch, DFG

DEPARTMENT OF CONSERVATION
MANAGEMENT LETTER AND RESPONSE



April 9, 2003

Mr. Darryl W. Young, Director
Department of Conservation
801 K Street
Sacramento, CA 95814

Dear Mr. Young:

Management Letter—Audit of Proposition 12 and 13 Bond Funds

In response to the Governor's November 9, 1999 directive, the Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Department of Conservation's (Department) funding under the Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (Proposition 12), and the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bond Act (Proposition 13), as of June 30, 2002. Specifically, our audit included a limited review of internal controls for Proposition 12 and 13 expenditures (support, local assistance, and capital outlay), and a determination as to whether these expenditures were in compliance with the bond acts, budget change proposals, and the Department's policies and procedures. In general, we found that the Department's expenditures were in compliance. However, we noted the following condition requiring corrective action:

FINDING

Controls Over Allocated Costs Could Be Improved

Condition: The Department has not documented its cost allocation procedures and methods in a Cost Allocation Plan, as required by Section 9202 of the State Administrative Manual (SAM). The lack of a Cost Allocation Plan increases the risk of erroneous indirect costs charged to the Department's programs. For example, indirect costs totaling \$11,431 were erroneously charged to Proposition 12.

Recommendations: A. Prepare the Cost Allocation Plan.

B. Correct the \$11,431 allocation error and ensure that future allocated costs are accurate.

The finding in this management letter is based on fieldwork performed in December 2002. We conducted our work in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

We discussed this issue with Department management on January 23, 2003. Please respond to the above finding within ten working days of your receipt of this letter. Your response should include the status of corrective action planned or taken on the finding and recommendations. The response may be included in our report to the Governor's Committee on Infrastructure, covering all of the Proposition 12 and 13 departments.

We appreciate the Department's cooperation. If you have any questions regarding this letter, please contact Richard R. Sierra, Manager, at (916) 322-2985, Ext. 3159, or Rick Cervantes, Supervisor, at Ext. 3164.

Sincerely,

A handwritten signature in black ink, reading "Samuel E. Hull". The signature is fluid and cursive, with the first name "Samuel" and last name "Hull" clearly distinguishable.

Samuel E. Hull, CPA
Chief, Office of State Audits and Evaluations
(916) 322-2985

cc: Ms. Debbie Sareeram, Deputy Director, Department of Conservation (DOC)
Mr. Gregory Lee, Accounting Administrator II, DOC
Ms. Elaine Berghausen, Deputy Assistant Secretary, Bonds and Grants, Resources
Agency



DEPARTMENT OF CONSERVATION
STATE OF CALIFORNIA

April 18, 2003

801 K STREET
SUITE 2400
SACRAMENTO
CALIFORNIA
95814

PHONE
916/322-1080

FAX
916/445-0732

TDD
916/324-2555

INTERNET
consrv.ca.gov

GRAY DAVIS
GOVERNOR

Mr. Samuel E. Hull, Chief
Office of State Audits and Evaluations
Department of Finance
915 "L" Street
Sacramento, California 95814

Dear Mr. Hull:

Management Letter – Audit of Proposition 12 and 13 Bond Funds

The Department of Conservation (DOC) has reviewed your Management Letter, dated April 9, 2003, addressing compliance with state business management policies, and has initiated actions necessary to resolve the issues raised in the report. The following is a summary of the issues and actions taken by the DOC to date and our planned future actions.

CONTROLS OVER ALLOCATED COSTS COULD BE IMPROVED

Recommendation 1

Prepare a Cost Allocation.

Response 1

The DOC now utilizes cost allocation procedures in accordance with Section 9202 of the State Administrative Manual. From here forward, indirect costs will be appropriately charged to all DOC programs.

Recommendation 2

Correct the \$11,431 allocation error and ensure that future allocated costs are accurate.

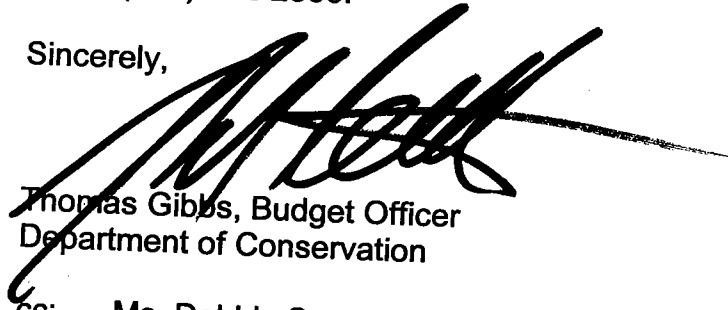
Response 2

The erroneous allocation of \$11,431 that was originally charged to Proposition 12 has been corrected. As stated above, the DOC now utilizes cost allocation procedures to accurately charge indirect costs to our programs.

Mr. Samuel E. Hull, Chief
April 18, 2003
Page 2

If you have any questions or need additional information, please contact me at (916) 322-2856.

Sincerely,

A large, stylized handwritten signature in black ink, appearing to read 'T. Gibbs', is written over the typed name and title.

Thomas Gibbs, Budget Officer
Department of Conservation

cc: Ms. Debbie Sareeram, Deputy Director, DOC
Mr. Gregory Lee, Accounting Administrator II, DOC
Ms. Elaine Berghausen, Deputy Assistant Secretary, Bonds and
Grants, Resources Agency

DEPARTMENT OF **F**ORESTRY AND **F**IRE **P**ROTECTION
MANAGEMENT **L**ETTER AND **R**ESPONSE



April 8, 2003

Ms. Andrea E. Tuttle, Director
Department of Forestry and Fire Protection
1416 Ninth Street, Room 1115-1
Sacramento, CA 95814

Dear Ms. Tuttle:

Management Letter—Audit of Proposition 12 Bond Funds

In response to the Governor's November 9, 1999 directive, the Department of Finance, Office of State Audits and Evaluations (OSAE), has completed its audit of the Department of Forestry and Fire Protection's (Department) funding under the Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (Proposition 12), for the fiscal year ended June 30, 2002. Specifically, our audit included a limited review of internal controls for Proposition 12 expenditures (support, local assistance, and capital outlay), and a determination as to whether these expenditures were in compliance with the bond act, budget change proposals, and the Department's policies and procedures. In general, we found that the Department's expenditures were in compliance. However, we noted the following conditions requiring corrective action.

FINDING 1

Encumbrances Are Not Reviewed at Year-End

Condition:

The Department did not review encumbrances at June 30, 2002, for validity. We identified \$185,418 in encumbrances not supported by valid, executed contracts. Specifically, \$85,418 was encumbered in fiscal year 2001-02 and \$100,000 was encumbered in fiscal year 2000-01 without contracts. In addition, a \$23,090 executed contract was not recorded as an encumbrance at June 30, 2002. Because encumbrances were not reviewed at year-end, as required by section 10608 of the State Administrative Manual, these errors went undetected.

Recommendation:

Review encumbrances at year-end for validity. Encumber funds only when there is an executed contract.

FINDING 2

Contracting Procedures Could Be Improved

Condition:

A. The Department does not adequately review grantee payment requests and supporting documentation. Specifically, in 7 of 11 claim schedules reviewed, the grantees' supporting documentation did not agree with their payment requests. We also found that the supporting documentation included "bids" and "estimates" instead of actual vendor invoices. Refer to section 8422.1 of the State Administrative Manual and section 9.04 of the State Contracting Manual for requirements.

- B. Five grant contracts lacked the signature certifying exemption from the Department of General Services' (DGS) approval. The DGS Exemption Notice No. CDF1-A1, dated September 1, 2001, requires the certification.

- Recommendations:
- A. Ensure that grantee payment requests are supported by adequate documentation, and include only actual costs.
 - B. Ensure that all contracts include the required certifications.

The findings in this management letter are based on fieldwork that my staff performed between October 2002 and December 2002. We conducted our work in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

We discussed these findings with Department management on November 21, 2002. Please respond to the above findings within ten working days of your receipt of this letter. Your response should include the status of corrective action planned or taken on the findings and recommendations. The response may be included in our report to the Governor's Committee on Infrastructure, covering all of the Proposition 12 departments.

We appreciate the cooperation and assistance provided by Department staff and management. If you have any questions regarding this letter, please contact Richard R. Sierra, Manager, at (916) 322-2985, Ext. 3159, or Rick Cervantes, Supervisor, at Ext. 3164.

Sincerely,



Samuel E. Hull, CPA
Chief, Office of State Audits and Evaluations
(916) 322-2985

cc: Ms. Cindy Shamrock, Deputy Director, Management Services, Department of Forestry and Fire Protection
Ms. Cathleen Sahlman, Chief, Program Accountability, Department of Forestry and Fire Protection
Ms. Elaine Berghausen, Deputy Assistant Secretary, Bonds and Grants, Resources Agency

DEPARTMENT OF FORESTRY AND FIRE PROTECTION

P. O. Box 944246
SACRAMENTO, CA 94244-2460
Website: www.fire.ca.gov
(916) 653-4175



M34

May 5, 2003

Mr. Samuel E. Hull, Chief
Office of State Audits and Evaluations
Department of Finance
915 L Street
Sacramento, California 95814-3706

Dear Mr. Hull:

This letter contains the California Department of Forestry and Fire Protection's (CDF) response to the management letter issued by the Department of Finance (DOF), in conjunction with the audit of the Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (Proposition 12), for the fiscal year ended June 30, 2002.

Finding 1: Encumbrances Are Not Reviewed at Year-End

The finding states that the Department did not review encumbrances at June 30, 2002, for validity. The audit identified \$185,418 in encumbrances not supported by valid executed contracts. Specifically, \$85,418 was encumbered in fiscal year 2001-02 and \$100,000 was encumbered in fiscal year 2000-01 without contracts. In addition, a \$23,090 executed contract was not recorded as an encumbrance at June 30, 2002.

Response:

The CDF Departmental Accounting Office (DAO) responds as follows to this issue:

Prior to this finding the Department process allowed incomplete contracts to be encumbered in anticipation of the fully executed contract to follow. In addition, the Departmental Accounting Office relied on inexperienced staff to process contracts for encumbering during the year allowing contracts to slip through the process without actually being encumbered.

Since the audit finding the Department has reviewed its encumbrance process and made the following changes to prevent future findings of this nature from occurring. The Departmental Accounting Office will no longer encumber contracts strictly from summary documents and will encumber only from fully executed contracts. The Departmental Accounting Office has assigned only one trained individual to encumber documents to prevent documents from slipping through without being encumbered. Finally, the Accounting Office has incorporated a review process into its fiscal year-end procedures and assigned a single individual to perform a review of encumbrances for this program at fiscal year-end.

Mr. Samuel E. Hull
May 5, 2003
Page Two

Finding 2: Contracting Procedures Could be Improved

The finding states that the Department does not adequately review grantee payment requests and supporting documentation. 7 of 11 claim schedules reviewed contained supporting documentation that did not agree with the payment requests. Supporting documentation included "bids" and "estimates" instead of actual vendor invoices. Five grant contracts lacked the signature certifying exemption from DGS approval.

Response:

The program manager for this program states that we will try to do a better job with the claims, but notes that there was no over or under payment for any reimbursements. He also pointed out that there were two instances where bid and estimate documents were used versus actual receipts. In both cases, the grantees were contacted and they provided cancelled checks showing they had paid each "estimate" and these were placed in the appropriate files. In the future we will ensure the files are complete with actual receipt documentation.

The five grants that lacked signatures in the DGS exemption area were corrected during the audit. We will ensure these signatures are obtained in the future.

CDF appreciates the opportunity to respond to the issues presented. If you have any further questions, please call Cathy Sahlman, Chief Auditor for CDF, at (916) 327-3989.

Sincerely,

A handwritten signature in black ink that reads "Andrea E. Tuttle". The signature is fluid and cursive, with a long horizontal line extending from the end.

Andrea E. Tuttle
Director

S STATE **W** WATER **R** RESOURCES **C** CONTROL **B** BOARD
M MANAGEMENT **L** ETTER AND **R** ESPONSE



April 8, 2003

Ms. Celeste Cantú, Executive Director
State Water Resources Control Board
1001 I Street
P.O. Box 100
Sacramento, CA 95814

Dear Ms. Cantú:

Management Letter—Audit of Proposition 13 Bond Funds

In response to the Governor's November 9, 1999 directive, the Department of Finance, Office of State Audits and Evaluations, has completed its audit of the State Water Resources Control Board's (Board) funding under the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bond Act (Proposition 13), as of June 30, 2002. Specifically, our audit included a limited review of internal controls for Proposition 13 expenditures (support, local assistance, and capital outlay), and a determination as to whether these expenditures were in compliance with the bond act, budget change proposals, and the Board's policies and procedures. In general, we found that the Board's expenditures were in compliance. However, we noted the following condition requiring corrective action:

FINDING

Encumbrances Are Not Properly Recorded, Reviewed, or Reported

Condition:

The Board does not always properly record or review encumbrances. Of 29 encumbrances tested, 3 were recorded twice in the accounting records. These errors resulted in an encumbrance overstatement of \$7,816,000 in the 2001-02 financial statements. Specifically, the encumbrance balances for funds 6016 and 6017 were overstated by \$6,765,000 (two contracts) and \$1,051,000 (one contract), respectively. The overstatements occurred because more than one accounting department employee received and processed the same contracts. The Board discovered and corrected the errors after the 2001-02 financial reports were issued. Section 10608 of the State Administrative Manual requires that "all encumbrances unliquidated as of June 30 will be reviewed to determine whether they are valid obligations of the year just ended, and whether the amounts encumbered are the most accurate that can be determined."

Recommendation:

Accurately record and report encumbrances. Review encumbrance balances periodically and at year-end for validity.

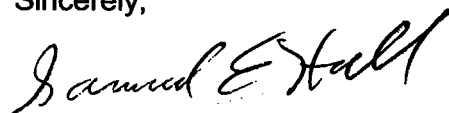
This is a recurring condition from a prior audit.

The finding in this management letter is based on fieldwork performed during October and November 2002. We conducted our work in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

We discussed this issue with Board management on December 3, 2002. Please respond to the above finding within ten working days of your receipt of this letter. Your response should include the status of corrective action planned or taken on the finding and recommendation. The response may be included in our report to the Governor's Committee on Infrastructure, covering all of the Proposition 13 departments.

We appreciate the assistance and cooperation of Board staff and management during our audit. If you have any questions regarding this letter, please contact Richard R. Sierra, Manager, at (916) 322-2985, Ext. 3159, or Rick Cervantes, Supervisor, at Ext. 3164.

Sincerely,



Samuel E. Hull, CPA
Chief, Office of State Audits and Evaluations
(916) 322-2985

cc: Mr. William Brown, Chief, Division of Administrative Services, State Water Resources Control Board (SWRCB)
Ms. Barbara Evoy, Chief, Division of Clean Water Programs, SWRCB
Mr. Stan Martison, Chief, Division of Water Quality, SWRCB
Mr. Jerrel Bolds, Chief, Accounting Branch, Division of Administrative Services, SWRCB
Mr. Bill Damian, Budget Officer, Division of Administrative Services, SWRCB



State Water Resources Control Board



Winston H. Hickox
Secretary for
Environmental
Protection

Executive Office

1001 I Street • Sacramento, California 95814 • (916) 341-5615
Mailing Address: P.O. Box 100 • Sacramento, California • 95812-0100
FAX (916) 341-5621 • Web Site Address: <http://www.swrcb.ca.gov>

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TO: Samuel E. Hull, Chief
Office of State Audits and Evaluation
Department of Finance
915 L Street
Sacramento, CA 95814

FROM: 
Celeste Camú
Executive Director
EXECUTIVE OFFICE

DATE: **APR 17 2003**

SUBJECT: RESPONSE TO MANAGEMENT LETTER - AUDIT OF PROPOSITION 13
BOND FUNDS

Thank you for the opportunity to respond to your April 8, 2003, management letter detailing the limited review of internal controls from the audit of the State Water Resources Control Board's (SWRCB) funding under the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bond Act (Proposition 13) as of June 30, 2002. I appreciate your efforts to bring to my attention potential internal control issues within the Proposition 13 programs. I have evaluated the finding identified in the management letter and have responded to the finding along with providing the status of the corrective action taken.

FINDING **Encumbrances Are Not Properly Recorded, Reviewed, or Reported**

Response: The SWRCB agrees with the finding that three encumbrances were posted twice and later corrected after the financial reports for the period ended June 30, 2003 were issued.

Status: The SWRCB has reviewed and established additional procedures for recording and reporting encumbrances. A thorough review of encumbrance balances occurs as posted, quarterly, and at year-end for validity.

Again, thank you for the opportunity to comment.

DEPARTMENT OF **W**ATER **R**ESOURCES
MANAGEMENT **L**ETTER AND **R**ESPONSE



June 19, 2003

Mr. Steve Verigin, Chief Deputy Director
Department of Water Resources
1416 Ninth Street, Room 1115-1
Sacramento, CA 95814

Dear Mr. Verigin:

Management Letter—Audit of Proposition 13 Bond Funds

In response to the Governor's November 9, 1999 directive, the Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Department of Water Resources' (Department) funding under the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bond Act (Proposition 13), as of June 30, 2002. Specifically, our audit included a limited review of internal controls for Proposition 13 expenditures (support, local assistance, and capital outlay), and a determination as to whether these expenditures were in compliance with the bond act, budget change proposals, and the Department's policies and procedures. In general, we found that the Department's expenditures were in compliance. However, we noted the following conditions requiring corrective action:

FINDING 1 Not All Expenditures are Allocated to Applicable Departments and Funds

Condition:

- A. The Department has not developed an allocation plan to distribute Fund 6001 bond issuance¹ and audit costs to the applicable departments, subsidiary funds, accounts, and/or subaccounts. Fund 6001 serves as a clearing account for Proposition 13 expenditures, which are allocated to 28 separate funds, accounts, and/or subaccounts. However, as discussed below, not all expenditures were allocated as required.
1. **Allocation of Bond Issuance Costs to Subaccounts.** All bond issuance costs are currently accounted for only in Fund 6001, and are not allocated to the applicable subaccounts. Without allocation of these costs, Department staff are unaware of the actual amount of Proposition 13 funds available for individual programs.
 2. **Allocation of Audit Costs to Other Departments and Subaccounts.** The Department funds all audit costs through Fund 6001, and currently does not intend to allocate these costs to participating departments and subaccounts. As a result, other departments/subaccounts are not absorbing their share of applicable costs.

¹ Bond issuance costs can include interest expense, and State Controller's and State Treasurer's Office charges.

B. Lack of Coordination for Fund 6015 Set-Aside Costs. There is no consistent or coordinated methodology for recording Fund 6015 set-aside costs². Three of the six departments with Fund 6015 appropriations have committed their entire appropriation to projects and have reserved no funds to cover bond issuance costs, while the remaining three departments have set aside amounts to cover current and future bond issuance costs. As the administering agency for Fund 6015, the Department should facilitate the development of a set-aside methodology among participating departments.

Departments or programs that have not anticipated paying for bond issuance and audit costs may have fully committed those funds to projects. As a consequence, in future years, remaining bond funds may be insufficient to pay all related expenditures. To accurately reflect available program funds, all applicable costs should be allocated to the ultimate department, fund, account, and subaccount.

Criteria: State Administrative Manual (SAM) section 8752 requires departments to recover full costs whenever goods or services are provided for others, regardless of funding source. In addition, Government Code sections 16727(c)(d)(e), 16724.5, and 16724.6 describe the allowable bond issuance costs that can be charged to bond funds; and Chapter 725, Statutes of 1999, documents the structure of Proposition 13 and allocation of the authorized funds.

Recommendations:

- A. Develop and implement an allocation plan to distribute the Fund 6001 bond issuance and audit costs to the applicable departments, funds, accounts, and subaccounts. Ensure consistent application of the plan.
- B. Develop and implement a set-aside methodology for Fund 6015 and ensure its consistent application among participating departments.

FINDING 2 Encumbrances are Not Properly Recorded or Reviewed

Condition: Proposition 13 encumbrances were understated by \$6,564,736 at June 30, 2002. The understatement consisted of \$495,550 in Fund 6023 (one contract) and \$6,069,186 in Fund 6027 (three contracts). We found that unsupported adjustments were made to the encumbrance balances, and that encumbrances were not reviewed for validity and completeness at year-end. Inaccurate encumbrance accounting may preclude the Department from identifying remaining funds available for bond projects. Also, without adequate encumbrance control, material misstatements could occur and remain uncorrected.

² Set-aside amounts consist of current and future year bond issuance costs.

Criteria: SAM section 10502 requires encumbrance documents to be properly recorded. This insures that budgeted funds are "earmarked" for payment of proposed expenditures and control over these expenditures is maintained.

Recommendation: Review encumbrances for validity and completeness at year-end, and accurately report the amounts in the financial statements. Also, require all encumbrance adjustments to be authorized and supported.

FINDING 3 Fiscal Activities are Not Properly Authorized or Monitored

Condition: We identified the following conditions during our audit:

- A. **The Vendor Edit Process is Not Adequately Controlled.** The Department has weak internal controls over the vendor add/edit process. Specifically, the Department does not ensure that only approved vendors (with Std. 204 forms on file) are entered into the Department's accounting system. Further, the Department allowed unauthorized users to update vendor information in the system. As a result, the Department is exposed to risk of loss from payments to ineligible or fictitious vendors.

This is a recurring condition from a prior audit.

- B. **Expenditures are Not Monitored.** Expenditures recorded in the Department's accounting system are not consistently reviewed for accuracy. We found an error in the Delta Levee Rehabilitation program (Fund 0409) that was not identified by either program or accounting staff. Although this misstatement was not material, taken together with the other findings in this letter, an underlying weakness exists for potentially significant, undetected errors and irregularities.

This is a recurring condition from a prior audit.

- C. **Fund Reconciliations are Not Reviewed.** The General Ledger Unit's monthly Proposition 13 fund reconciliations are not reviewed or approved. Without review and approval of fund reconciliations, the Department may lose control and accountability of bond funds, and material errors may go undetected.

This is a recurring condition from a prior audit.

Criteria: Government Code sections 13401 through 13407 require each State agency to maintain effective systems of internal accounting and administrative control. Also, SAM section 7908 requires that all reconciliations show the preparer's name, reviewer's name, date prepared, and date reviewed.

- Recommendations:
- A. Ensure that only approved vendors are entered into the accounting system, and that all vendor changes are made only by authorized users. Prepare and retain Std. 204 forms documenting approved vendors.
 - B. Require program and accounting staff to monitor recorded expenditures for accuracy and to initiate corrections when required.
 - C. Review and approve all Proposition 13 fund reconciliations and document evidence of approval.

FINDING 4 Miscellaneous Accounting Errors

Condition: We identified the following conditions during our audit:

- A. **Water Resources Revolving Fund Variance.** During fiscal year 2001-02, the Department incurred a \$14 million negative variance in its Water Resources Revolving Fund (WRRF). The variance was caused by the under/over recovery of staff salaries, and numerous other errors attributable to the installation of a new accounting system (SAP³). A contributing factor is that the Department does not monitor the WRRF balance throughout the year to anticipate, minimize, and alleviate the variance before year-end. Instead of correcting the salary discrepancies and individual errors, the Department implemented a plan to distribute the total variance to all the programs, funds, and accounts based on the percentage of labor hours charged to each. This approach may not be equitable to all funds, including Proposition 13. However, an assessment of this distribution is beyond the scope of our audit.

This is a recurring condition from a prior audit.

- B. **Lack of Expenditure Detail.** During fiscal year 2001-02, the Department improperly used Proposition 13 funds to pay Proposition 204 expenditures. Specifically, the Department transferred \$9.3 million in excess cash from Fund 6001 (Proposition 13) to the Delta Levee Rehabilitation program (Fund 0409) for Proposition 204 expenditures. Although Fund 0409 receives funding from various sources, its year-end financial statements do not differentiate the expenditures and encumbrances by funding source, and the Department is unable to reconcile activity with these sources. Without adequate reconciliation of Proposition 13 and 204 expenditures, the Department may deplete funds available for Proposition 13 activities.

³ Systems Applications Products in Data Processing

- C. **Erroneous Charges.** The Department improperly charged support expenditures to the local assistance appropriation for Funds 6007, 6010, 6025, and 6027. This accounting practice may cause deficits in the local assistance appropriation.

This is a recurring condition from a prior audit.

Criteria: Government Code sections 13401 through 13407 require each State agency to maintain effective systems of internal accounting and administrative control.

- Recommendations:
- A. Monitor the WRRF balance throughout the year to control and minimize the variance. Provide training to all program, accounting, and budgeting staff on how the various SAP modules interrelate and impact the accounting records.
 - B. Reimburse Fund 6001 for the \$9.3 million of Proposition 204 expenditures incorrectly charged. Ensure that only Proposition 13 expenditures are reimbursed from Fund 6001. Also, identify expenditures and encumbrances by funding source, and ensure that the amounts reconcile to the accounting records.
 - C. Charge support expenditures in accordance with specific budget authority.

FINDING 5

Inadequate Audit Trail for Corrected Transactions

Condition: The Department does not provide a clear audit trail for corrected transactions, and was unable to readily produce documentation to support the corrected transactions. Specifically, the Department consolidated corrected transactions into general ledger entries under the Due To/From Correct account (No. 9001999), with a limited or non-existent audit trail. Without adequate documentation, material misstatements could occur and remain uncorrected.

This is a recurring condition from a prior audit.

Criteria: SAM sections 7221 and 20050 require supporting documentation as the basis for recording transactions, and that adequate internal accounting controls are in place to safeguard assets and assure the reliability of accounting data.

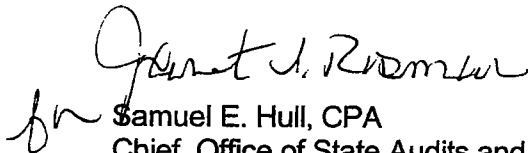
Recommendation: Maintain a clear audit trail for all transactions and retain supporting documentation for audit.

The findings in this management letter are based on fieldwork performed between November 2002 and February 2003. We conducted our work in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

We discussed these issues with Department management on May 15, 2003. Please respond to the above findings within ten working days of your receipt of this letter. Your response should include the status of corrective action planned or taken on the findings and recommendations. The response may be included in our report to the Governor's Commission on Building for the 21st Century, covering all of the Proposition 13 departments.

We appreciate the Department's cooperation with our audit. If you have any questions regarding this letter, please contact Richard R. Sierra, Manager, at (916) 322-2985, Ext. 3159, or Mary Camacho, Supervisor, at Ext. 3133.

Sincerely,

for Samuel E. Hull, CPA

Chief, Office of State Audits and Evaluations
(916) 322-2985

cc: Ms. Elaine Berghausen, Deputy Assistant Secretary, Resources Agency
Ms. L. Lucinda Chipponeri, Deputy Director, Department of Water Resources (DWR)
Ms. Perla Netto-Brown, Chief, Fiscal Services, DWR
Ms. Gail Chong, Chief, Bond Section, DWR

Memorandum

Date: JUL 23 2003

To: Samuel E. Hull, CPA
Chief, Office of State Audits and Evaluations
Department of Finance
915 L Street
Sacramento, California 95814-3706

From: Department of Water Resources

Subject: Management Letter – Audit of Proposition 13 Bond Funds

This is in response to your June 19, 2003 letter regarding the audit of the Department of Water Resources' funding under the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bond Act of 2000 (Proposition 13). Our response to the findings and recommendations are as follows:

FINDING 1A (1 and 2):

DWR concurs with this finding. We are currently working on identifying alternatives for distributing (based on plans, cash, or actual expenditures) bond issuance costs to the subaccounts. DWR has begun the preliminary work needed to implement the alternative selected by requesting new general ledger accounts be created to track the bond issuance costs. We hope to have this in place for use in fiscal year 2003-2004.

FINDING 1B:

DWR concurs with this finding. We acknowledge that DWR is the administering agency; however, the primary responsibility for coordination of fund 6015 rests with Resources Agency. We have informed program staff of the need to set-aside funds to cover bond issuance costs. DWR does not have access to other Agencies' State Controller Balances and cannot exercise control over their accounting, budgeting, or Program Managers. We are willing to work with Resources Agency to assist them in establishing a consistent methodology for recording set-aside costs.

FINDING 2:

DWR concurs with the finding. DWR has improved the encumbrance reports, completed an initiative to "clean-up" commitments in the SAP system, and educated program staff regarding the proper protocol for commitments. Limitations within the SAP system make it difficult to adjust encumbrances after a fiscal year-end closing. This has made it necessary for the accounting staff to implement a work around to adjust encumbrance balances at year-end. Additional training will be provided and process controls will be established to insure that unsupported adjustments are not made in the future.

FINDING 3A:

DWR has tightened internal controls over the vendor add/edit process. Vendor master data is centralized in Fiscal Services, Administration/Travel and Master Data Office. New vendors are only added to SAP when the vendor master data specialist receives a completed Payee Data Record Form (Std. 204). Vendor edits are routed through the DWR help desk and must be accompanied by vendor documentation and/or a new Std. 204. Occasionally, if there is a time constraint, a vendor may be added or edited and blocked for use until the Std. 204 or documentation is received. Upon receipt, the vendor is unblocked and can be used by the requisitioner.

With the implementation of SAP the buyers' role included MK02, Change Purchasing Vendor. Buyers needed MK02 to expedite vendor phone and fax number changes. It was brought to our attention that other changes were being made to the master data records without going through the help desk and master data specialist. Buyers in the Purchasing Office were allowed access to vendors with written instructions from their Office Chief to only update phone and fax numbers. When other changes occurred, we limited access to the Administration/Travel and Master Data Office and one buyer, who was given specific written instructions and is monitored by the vendor master data specialist regularly.

FINDING 3B:

DWR does not concur with this finding. Program Managers respectfully disagree with the conclusion that their program administration can lead to significant undetected areas. The coordination between program staff and the Budget, Accounting, and Contract's offices has significantly improved over the past fiscal year. In addition to the overview of expenditures offered with the SAP FM and CO modules, Program staff track local assistance expenditures with project manager spreadsheets and tracking spreadsheets that provide all applicable payment information online from our Program share-drive. The coordination between our program staff and the Budget, Accounting, and Contract's offices will continue to improve over the next fiscal year.

FINDING 3C:

DWR concurs with the finding. A regular schedule was established last fiscal year requiring all reconciliations to be completed and reviewed on a monthly basis. For some inexcusable reason, it was not implemented. We continue to experience high turnover in the General Ledger Office including the Office Chief position, which has been vacant since January 2003. Currently, the Deputy Comptroller is acting as

the Office Chief. The supervisors within the office provide regular status reports to the Deputy Comptroller on the State Controller's Office reconciliations. This includes their progress in reviewing and approving the completed reconciliations.

FINDING 4A:

We do not concur with this finding. As explained in last year's response, the variance is created when the Organizational Cost Center's budgeted or planned use of hours is different from the actual hours charged to a program and/or when budgeted expenditures are less than actual expenditures. It is not caused by "numerous other errors attributable to the installation of a new accounting system (SAP)." The Department routinely monitors the variance on a monthly basis. It is also discussed with all Division Chiefs at Governance Board meetings on at least a monthly basis. With the sophisticated costing method established in SAP, it is expected that a variance will exist every year. The Department's goal is to monitor and try to minimize the variance as much as possible. During the past year, the Department engaged in an extensive training effort to increase Program staff's understanding of how the variance is created, the consequences of inaccurate planning data, and the impacts to the Water Resources Revolving Fund. In addition, the Program Analysis and Support Office has provided one-on-one training with several divisions to help them learn to manage their variance better.

The Department has changed the way the variance is distributed to programs. In fiscal year 2001-2002, each Division's variance was allocated to only the programs to which it provided services and charged labor hours to. Thus keeping the Division's variance within its programs and providing a more equitable basis for distribution. Further, in fiscal year 2002-2003, a mid-year adjustment was made to overhead assessments and labor rates in an effort to reduce the variance at year-end. The Department places a great deal of importance on the variance; consequently, we always look for ways to reduce it. We will continue to closely monitor and implement procedures to manage the variance and reduce the cash flow impacts to WRRF.

FINDING 4B:

DWR does not concur with this finding. SCO did not create a separate account for Proposition 13 when it replaced Prop. 204 as a funding source for the Delta Levee Rehabilitation Program. The Programs funded under both Propositions are identical; therefore, we could not have improperly used the funds for programs other than what was intended. Despite the lack of separation of the SCO account, DWR does maintain separate cost objects for managerial reporting to track expenditures for each Proposition.

The General Ledger is maintained by fund not by program. Reconciliations and financial statements are prepared at the fund level. Again, the root of the problem goes back to having only one SCO account for two different funding sources.

We will need additional information from the Auditors in order to fully understand this finding and determine what action, if any, we can take to improve tracking in this area.

FINDING 4C:

DWR concurs with this finding. For fiscal year 2001-2002 corrections were made to fund 6007, 6010, and 6025 in January 2003. Copies of the correcting documents were given to the auditors. For the prior fiscal year, 2000-2001, we are working with the program manager to determine where the state operations charges should be moved to from fund 6025 and will work on correcting the charges to 6027.

FINDING 5:

DWR does not concur with this finding. The Department requires that the consultants document the issues creating the transaction errors, the Department's business requirements, solution approach/options, expected results, and any open issues after implementation of the solution. The Division Chief approves all solutions and the consultant is required to have staff assist them with correcting transactions that need to be posted. The Due To/Due From correction entry referred to in this finding was posted using consolidated transaction data in an effort to limit the number of system records that would be created if the data was not consolidated could have placed the system at risk so the decision was made to analyze and consolidate the information in excel and post the correction by batch. The audit trail is available in excel spreadsheets but without extensive knowledge of the SAP master data structure and SAP CO to FM to FI reconciliation, it may appear that there is an inadequate audit trail. The Department has audit information in the form of hard copies. Two accordion folders with the detailed information described above are available for the auditors to review.

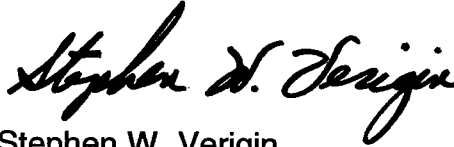
This mass correction process is not what the Department would consider standard operating procedures. However, under the circumstances it would have been infeasible to correct these transactions on a line-by-line basis, which we realize would have provided a clearer audit trail.

Samuel E. Hull, CPA

JUL 23 2003

Page 5

If you have any questions, please contact me or your staff may contact
Perla Netto-Brown, Chief of DWR 's Division of Fiscal Services, at (916) 653-9836.



Stephen W. Verigin
Acting Chief Deputy Director
(916) 653-6055

cc: Elaine Berghausen
Deputy Assistant Secretary for Bonds and Grants
The Resources Agency
1416 Ninth Street, Room 1311
Sacramento, California 95814

Lucinda Chipponeri, Deputy Director
Department of Water Resources

Memorandum

Date: AUG 28 2003

To: Samuel E. Hull, CPA
Chief, Office of State Audits and Evaluations
Department of Finance
915 L Street
Sacramento, California 95814-3706

From: Department of Water Resources

Subject: Revised Response to Audit Finding

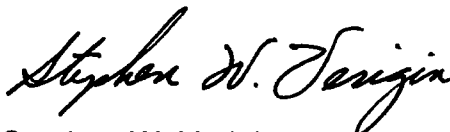
This is a revised response to your June 19, 2003 letter regarding the audit of the Department of Water Resources' funding under the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bond Act of 2000 (Proposition 13). This revised response replaces the one sent to you in our letter dated July 23, 2003 for Audit Finding 1B only.

FINDING 1B:

DWR concurs that there was a lack of coordination and no consistent methodology amongst the departments to record set-aside costs for fund 6015. The language in Proposition 13 for the River Protection Subaccount, fund 6015, provided that 3 percent of the Subaccount could be used for administration, or a total of \$2,850,000. This amount has been taken off the total \$95 million allocation and set aside, or reserved to cover bond issuance and audit costs. The funds have not been made available for appropriation to any department for projects. Therefore, the full appropriation each department received is available for projects. No additional funds need to be reserved for future bond issuance costs.

DWR has notified the three departments that have set aside duplicative amounts to cover current and future bond issuance and audit costs that this is not necessary and to use their funds to cover project costs.

If you have any questions, please contact me or your staff may contact Perla Netto-Brown, Chief of DWR's Division of Fiscal Services, at (916) 653-9836.

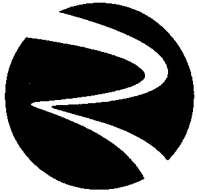


Stephen W. Verigin
Acting Chief Deputy Director
(916) 653-6055

cc: Elaine Berghausen
Deputy Assistant Secretary for Bonds and Grants
The Resources Agency
1416 Ninth Street, Room 1311
Sacramento, California 95814

Lucinda Chipponeri, Deputy Director
Department of Water Resources

RESOURCES AGENCY
RESPONSE TO STATEWIDE ISSUES



October 8, 2003

Mr. Samuel E. Hull, Chief
Office of State Audits and Evaluations
Department of Finance
915 L Street
Sacramento, California 95814

Subject: Response to Draft Report – Review of Bond Funds – FY 2001-02

Dear Mr. Hull:

Thank you for the opportunity to respond to the draft audit report of the 2000 Parks Bond (Proposition 12) and Water Bond (Proposition 13) funds. We appreciate the effort of the auditors to work with the departments to improve control procedures and generally “fine tune” the financial and compliance activities within the departments.

We are pleased that overall, the audit concluded that the bonds funds were accurately accounted and reported in compliance with the bond acts and in conformity with the accounting practices as prescribed by the State of California and that, with few exceptions, bond-acquired assets were adequately accounted, safeguarded and reported in compliance with all requirements.

As lead agency for Proposition 12, we are providing the following responses to the Findings and Recommendations in the report:

Finding 1 – The Coordination of Grant Awards Should Be Improved.

Recommendation: To ensure full accountability and prevent duplication of funding, we recommend that a lead department develop and implement procedures, such as a consolidated project database, to coordinate the disbursement of project funds among departments. Projects should not be approved or grants awarded before consulting this consolidated information.

Response: There are many program overlaps in the bond allocations and in the statutes that implement them. In some cases, multiple departments provide funding for a single project. In the absence of a single state agency having responsibility for all grants in a specific program and/or geographic area, seamless coordination between state agencies operating in overlapping arenas would be ideal but it is unclear whether the cost of such a coordination effort would be cost-effective. As we understand it, the



auditors have not identified any examples of duplicate charges, ineligible cost submittals or other illegal or fiscally irresponsible practices that have occurred in the current environment of independent grant award processes. In addition, in their recommendation the auditors have not indicated whether unidentified cross-funded projects have occurred in more than a few cases and, moreover, that such cases have been a problem. In fact, leveraging multiple funding sources to accomplish projects can have a real positive effect on the services to the public.

We believe the creation of a data base for bond funded projects, in and of itself, would not be successful in mitigating the risk of duplicate funding as there are many other sources beyond the State's bond funds, including federal, other funds from the state, local and private sources, that are used on these projects. All of these other funding sources present the same risk for duplicate funding on projects. The cost of a coordinated data base for bond funds and the designation of a department as lead agency to coordinate the disbursement of all bond funds would be too costly to administer, would greatly delay funding awards and would not fully address the duplication risk.

Many departments have developed their own processes, usually by program, to coordinate with other programs and these efforts have evidently been effective to date. While the audit did not identify any actual cases of duplication, we understand the risk issue being raised and believe there are ways to mitigate it. We are not convinced that there is any single solution to this issue but there is always the opportunity to improve processes. Several strategies used together should reduce the level of risk.

Applicant Disclosure – Many, if not all, of the departments administering grants and loans require the applicant to disclose all other sources of funding for the proposed project and to further identify other grants or loans applied for. This approach makes the applicants responsible for identifying their funding sources and enables the departments to specifically coordinate on those identified projects. This self-reporting has the benefit of encompassing all funding sources, federal, local, in-kind and private. The Resources Agency will direct all constituent organizations to ensure that applicants are required to disclose all funding sources obtained or applied for for a project.

Audits for Omissions – Grantees currently are aware that their funds are subject to audit at the discretion of the State. The Resources Agency will direct all constituent organizations to include the provision that should the State become aware through any source that the applicant did not disclose all funding sources for the project, the grant will be referred to Department of Finance for a project audit.

Continue Coordination Activities – As mentioned, many programs have already developed their own mechanisms to coordinate with other programs and departments. In response to the requirements of Chapter 272, Stats. 2002 (AB 2534), the Resources

Agency and CAL/EPA have developed a Watershed Coordinating Council. One of the charges of this council is to improve the coordination of watershed-related grants awarded by departments within both agencies. The Resources Agency's River Parkways Program coordinates with DWR's Urban Streams and Flood Protection Corridor programs, with State Parks' local assistance programs and with all the conservancies' programs. State land acquisitions, particularly large ones, have involved the financial participation of several departments. These acquisitions have been coordinated through the Resources Agency. The California Financing Coordinating Committee is a consortium of State and Federal agencies that provide infrastructure financing, water facilities and other community purposes. Participants include the Departments of Health Services, Housing and Community Development, Water Resources, the State Water Resources Control Board, California Infrastructure Bank and the USDA Rural Utilities Services. This group routinely reviews lists of applications and awards of other participating agencies to compare projects and identify potential duplication in funding. The Resources Agency will direct all constituent departments to continue their efforts and to expand coordination efforts whenever opportunities are identified.

Consolidated Data Base of Projects - The recommendation to develop a consolidated project data base is not a realistic endeavor for Proposition 12 and 13 projects. With the enactment of the FY 2003-04 budget, less than \$8 million in Proposition 12 funds remain unappropriated, and much of the funding available through Proposition 13 has been or will be awarded within the next several months. No department has the resources to create a consolidated data base for these two bond acts. By the time funding and staffing was obtained through the State budget process, assuming we were successful, and the data base was populated with project information, most of the remaining funds would have already been awarded.

Also, no funding has been set aside out of either Proposition 12 or 13 for these activities, so in theory the amount available for projects would need to be reduced proportionately to cover the costs of the data base. (Public Resources Code Section 5096.367.5 requires actual costs incurred to be paid out of each bond allocation for Proposition 12.) As some allocations for projects have been fully awarded and/or expended, the unspent portions of the bonds would bear a disproportionate burden of the cost.

The consolidated website for Propositions 40 and 50, for which funding and staffing were included in the budget, will provide information on project awards from those two bond funds. All organizations receiving an appropriation out of the bonds will report their project award information into the data base. The information will be available to everyone through the Web so the departments will be able to search the data base as needed.

Finding 2 – Grant/Contract Language Should Be Improved

Recommendation: Departments include the following provisions in all grants/contracts: (1) a specific term for the performance or completion of the project (dates or length of time); (2) a clear description of the project scope, including the work, service or product to be performed, rendered or provided; (3) line-item expenditure budgets; (4) amounts and sources of all project funding; (5) definition of eligible and ineligible costs; and (6) disposition of unused grant funds, interest earned on grant funds, and revenue generated from bond-funded property.

Response: We agree with this recommendation. Responses from some departments to this finding suggest that many, if not all, of these elements are already included in the standard grant and loan contracts. We will direct all administering departments within the Resources Agency to modify their grants/contracts provisions as necessary to address all of these areas. In some cases, for example, eligible and ineligible costs may be defined in other materials, such as the grant solicitation packet. In that event, including these other documents by reference into the grant/contract should be satisfactory.

We appreciate the opportunity to respond to the findings in the audit and look forward to working with the Department of Finance on continued improvements. Should you have any questions, please contact Elaine Berghausen, Deputy Assistant Secretary, Bonds and Grants at (916) 653-5656.

Sincerely,



Don Wallace
Assistant Secretary
Administration and Finance

cc: All Proposition 12 Department Directors
Director, Department of Water Resources

EVALUATION OF THE RESPONSES

We provided each department with an opportunity to respond to its management letter findings and recommendations, and have received all requested responses. Because the Department of Fish and Game provides accounting and reporting services for other departments, its responses to those departments' findings are also included. We have reviewed the enclosed responses and noted that most departments have taken, or plan to take, appropriate corrective actions on the findings and recommendations. However, because the Department of Water Resources disagreed with certain findings, we provide the following comments:

Department of Water Resources (DWR)

FINDING 3.B—Expenditures are Not Monitored

We identified accounting errors and recommended that program and accounting staff monitor expenditures for accuracy. The DWR disagrees with the effect of this finding which indicates that the lack of monitoring could lead to significant undetected errors. Because we identified similar errors during the fiscal year 2000-01 audit, an underlying weakness still exists, and we considered it necessary to report this finding again. Combined with the other findings reported in the current management letter, there is an increased risk that material errors and irregularities could occur and remain undetected. We acknowledge that the DWR plans to better coordinate accounting and monitoring activities among its various units.

FINDING 4.A—Water Resources Revolving Fund Variance

We identified a \$14 million negative variance in the Water Resources Revolving Fund, and recommended that the DWR monitor and minimize the variance, and provide training to staff with roles in the accounting process. This is an ongoing weakness that we also reported in our 2000-01 audit. Although the DWR disagrees that the variance was caused by errors attributable to the installation of a new accounting system, the DWR appears, in its response, to have taken action to better monitor, control, and equitably distribute the variance to participating programs, and to make ongoing variance management a priority.

FINDING 4.B—Lack of Expenditure Detail

Because Fund 0409 (Delta Levee Rehabilitation Subaccount) receives funding from Proposition 13 and other sources, in order to comply with the Governor's directive, we recommended that the DWR establish a process to separately identify Proposition 13 expenditures and encumbrances within this fund. The DWR does not agree with the finding, stating that it utilizes separate cost object codes for this purpose. However, we determined that the Proposition 13 cost object expenditure amounts did not support the expenditures reimbursed to Fund 0409. During our subsequent audit, we will work with the DWR to further clarify and help resolve this issue.

FINDING 5—Inadequate Audit Trail for Corrected Transactions

In both the 2000-01 and 2001-02 management letters, we recommended that the DWR maintain a clear audit trail for all transactions and retain supporting documentation for audit. In its response, the DWR stated that documentation for corrected transactions is available on Excel spreadsheets. However, during both the current and prior audits, we requested supporting documentation, but none was provided. We will obtain and review this documentation during our subsequent audit, and assess the sufficiency of the audit trail.

All Departments

During our subsequent audit, we will follow-up on all departments' reported conditions and responses, and verify the implementation of corrective actions.

CONCLUSION

We respectfully submit this report on our review of the 2000 Parks Bond (Proposition 12) and Water Bond (Proposition 13) funds, as of June 30, 2002, to the Commission on Building for the 21st Century.

The control and accountability issues discussed in the *Findings and Recommendations* present opportunities for departments to correct identified weaknesses and improve operations. We believe the internal control would be strengthened if departments implement our recommendations. The internal control weaknesses, if left uncorrected, increase the risk that material errors or irregularities could occur and remain undetected.

We conducted our review in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, based on fieldwork performed from July 1, 2001 to February 28, 2003. We limited our review to those areas specified in the scope section of this report.



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February 28, 2003